



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

Report to:	Pensions Committee
Date:	01 December 2022
Subject:	Border to Coast Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy Annual Review

Summary:

Border to Coast Pensions Partnership (Border to Coast) review their Responsible Investment (RI) Policy, Corporate Governance and Voting Guidelines and Climate Change 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, Corporate Governance and Voting Guidelines and Climate Change Policy;
2. Agrees to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's; and
3. Agree to consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations.

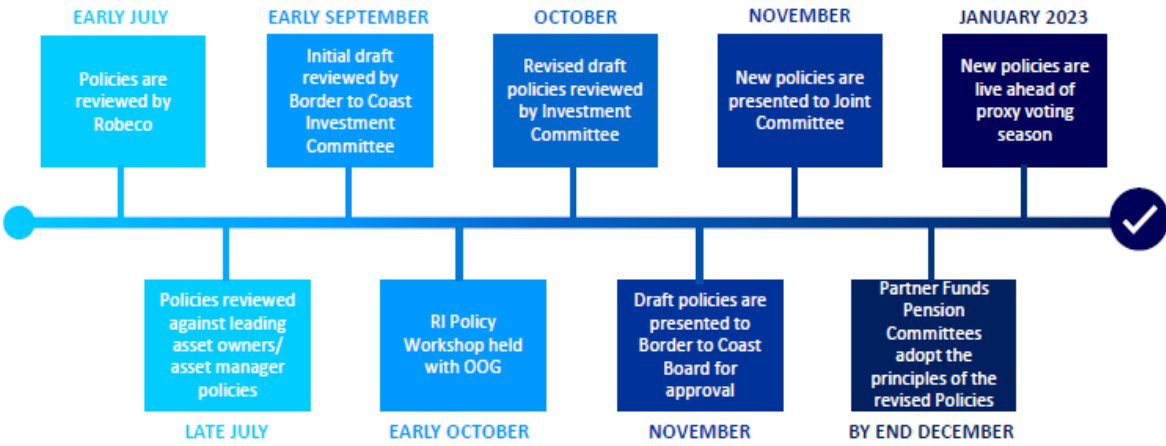
Background

- 1.1 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, accompanying Corporate Governance and Voting Guidelines, and a specific Climate Change Policy to ensure clarity of approach.

- 1.2 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.
- 1.3 The first standalone Climate Change Policy was developed last year and published with effect from 1 October 2021. The annual review of the Climate Change Policy is being aligned with that of the other Responsible Investment policies from this year. The proposed revised Border to Coast Climate Change Policy is attached at appendix C.
- 1.4 Following the review of the Committee’s Investment Beliefs during 2022 it is recommended that the Committee consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations.
- 1.5 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.

2.0 Border to Coast's Review Process

- 2.1 Border to Coast review the RI Policy, Corporate Governance & Voting Guidelines and Climate Change Policy annually, or when material changes need to be made. The annual review process commenced in July to ensure any revisions are in place ahead of the 2023 proxy voting season.
- 2.2 The review timeline is set out below:



- 2.3 Current policies were evaluated by Robeco, Border to Coast's 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.
- 2.4 The policies of best-in-class asset managers and asset owners, considered to be RI leaders, were also consulted to determine developments across the industry. Investment Association Shareholder Priorities for 2022 have also been taken into account.
- 2.5 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 Fund officers in October where the proposed policies were shared, and feedback was received. A briefing on the updated policies was held in November for Joint Committee members and the Joint Committee considered the draft documents at its formal meeting on 30 November 2022. All of the Partner Funds will be taking, or have taken, them to their respective Committees for their comment and approval.

3.0 Key changes to the RI Policy

3.1 This year's RI Policy review reflects work undertaken during the year, including the Net Zero commitment. The key changes include:

- Human rights – this is an area receiving increased focus from investors. To recognise the importance of this area the policy now highlights the expectation of companies and includes a reference to further detail in the Voting Guidelines. To support this social engagement theme, Border to Coast have joined an initiative led by the Principles for Responsible Investment (PRI).
- The climate change section of the RI Policy has been significantly reshaped following the publication of a standalone Climate Change Policy.
- A new section has been added to the policy on Exclusions. When considering any exclusions, analysis is conducted of the associated material financial risk of a company's business operations and whether there are any concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour. This has been revisited as part of this year's review process.

Revenue thresholds for thermal coal and oil sands have been reviewed. To demonstrate commitment to Net Zero and provide a clear signal of long-term intentions to reducing exposure to the most carbon intensive fossil fuels in investment portfolios, the proposal is to decrease the revenue threshold to >70% for investments in public markets, with a lower threshold of 25% for

private markets to reflect the long-term nature of these investments. This still reflects the risk criteria used to determine the original exclusions in last year’s policy. As Border to Coast support a just transition and recognise that not all countries are at the same stage in their decarbonisation journey, the implications of the thermal coal and oil sand exclusions will be assessed, and exceptions may be made if considered appropriate.

Controversial weapons were highlighted as an area to consider for exclusions last year but due to a lack of data and ability to screen portfolios effectively this was deferred. As additional screening tools are now available the analysis of cluster munition companies has been conducted across portfolios, associated benchmarks and the MSCI Universe. The proposal is 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.

- Minor amendments have been made to some of the specific sections when integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, and the impact of the Net Zero commitment.

3.2. The amendments to the RI policy are detailed in the table below:

Section	Page	Type of Change	Rationale
1. Introduction	2	Amendment	Update on UK Stewardship Code signatory status.
1.1 Policy framework	3	Amendment	Revised diagram to include Climate Change Policy
2. What is responsible investment	3	Amendment	Insertion of ‘opportunities’.
3. Governance and implementation	3	Amendment	Revision on use of term ‘sustainability’.
5. Integrating RI into investment decisions	4	Amendment	Remove ‘internally and externally managed’.
	4	Addition	Add ‘Pay conditions’ to table under social issues.
	4	Addition	New text on human rights.
5.2 Private markets	5	Addition	Reference to annual monitoring questionnaire.
5.4 Real estate	6	Amendment	Revised in line with TCFD report.
5.5 External manager selection	6	Addition	Update on climate change and net zero.

5.6 Climate change	7	Amendment	Text on exclusions cut and moved to new section.
	7	Addition	New text on just transition.
6 Stewardship	7	Amendment	Update on Stewardship Code signatory status
6.1.1 Use of proxy advisors	8	Amendment	Removal of Voting and Engagement provider name.
6.2.3 Exclusions	11 - 13	Addition	New section on exclusions.
6.3 Due diligence and monitoring procedure	13	Amendment	Removal of Voting and Engagement provider name.
8. Communication and reporting	13	Addition	Reporting on progress on implementation of Net Zero Plan.
10. Conflicts of interest	14	Addition	Includes reference to stewardship conflicts.
Appendix A	14	Addition	New section referencing third-party providers.

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

4.0 Key changes to the Corporate Governance and Voting Guidelines

4.1 The Corporate Governance and Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2022 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text. The key changes include:

- A new section on human rights has been included to support the addition to the RI Policy, and amendments have been made to the climate change section to continue to strengthen the Voting Guidelines in this area and to support the Net Zero commitment.
- The guidelines have been revised on when Border to Coast will vote against the Chair of a Board based on the Transition Pathway Initiative (TPI) assessment of companies, moving to level 2 for high emitting sectors, and level 3 for Oil and Gas companies. Border to Coast have also made revisions when reviewing companies failing Climate Action 100+ Net Zero Benchmark indicators and will vote against the Chair where a company fails one or more of the first four indicators.

- Banking Sector – as banks will play a pivotal role in the transition to a low carbon economy, the guidelines now set out climate-related voting intentions for the sector. Banks will be assessed using the framework developed by the Institutional Investors Group on Climate Change (IIGCC) and the TPI. Border to Coast will vote against the Chair of the Sustainability Committee, or appropriate agenda item, if a company fails the first four indicators of the framework.

4.2 The amendments to the Corporate Governance and Voting Guidelines are detailed in the table below.

Section	Page	Type of Change	Rationale
Composition and independence	3	Amendment	Remove 'large cap'.
	4	Addition	Detail on expectations of overall board tenure.
Leadership	4	Addition	Clarification on voting intention, considering market practice.
Diversity	5	Amendment	Expectations of FTSE 100 and FTSE 250 companies.
Succession planning	5	Amendment	Remove 'solely' to cover all jurisdictions.
Stakeholder engagement	6	Addition	Additional reference to key stakeholders and expectations of the board.
Long-term incentives	8	Addition	To cover standards for other markets.
Human Rights	14	Addition	New section to articulate voting approach and expectations of companies.
Climate Change	12	Amendment	Text amended to reflect changes to Climate Change Policy.
	13	Amendment	Revised thresholds for TPI and CA100+ indicators.
	13	Addition	New text regarding banks.
	13	Addition	New text on just transition.

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

5.0 Key changes to the Climate Change Policy

5.1 The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. The original Policy highlighted areas for focus over the 12-months post publication in October 2021, the proposed policy now includes an implementation plan and milestones through to 2050. The main changes are detailed below:

- The Just Transition was not previously referenced in the Policy. This is an important area as the transition to a low carbon economy should consider all stakeholders and be inclusive whilst recognising global inequalities.
- The roadmap only covered the 12-months to September 2022, this has been replaced with the reporting and monitoring timeline included in the Net Zero Implementation Plan which provides milestone to 2050.
- The use of the Net Zero Investment Framework (NZIF) and membership of the Net Zero Asset Managers initiative (NZAM) have been added to the Policy. The scope of the assets covered and high-level wording on targets is now included. Extra detail is also included on the expectations of external managers regarding engagement, and how Border to Coast will work with them on implementing specific decarbonisation parameters for their mandates.
- Exclusions have been updated to include the recommendation to reduce the revenue threshold for thermal coal and oil sands to 70% and include a lower threshold (25%) for private markets.
- The engagement section has been updated with revised wording on how votes will be exercised in relation to companies in high emitting sectors. These are in line with the proposed revisions to the Voting Guidelines.

5.2 The amendments to the Climate Change Policy are detailed in the table below.

Section	Page	Type of Change	Rationale
2.1. Our views and beliefs on climate change	2	Addition	Impact of climate change on the investment universe.
2.2 Why climate change is important	3	Addition	Reference to physical and transition risk.
	4	Addition	Included text on a Just Transition.
2.4 Roadmap	6	Revision	Replace with timeline going out to 2050.
3.1 Our ambition –	7	Amendment	Reference use of NZIF and

Net zero			joining NZAM.
3.5 Regulatory change management	8	Revision	Reviewed by Head of Compliance.
4.1 How we identify climate-related risks	8	Revision	Revised in line with TCFD report.
4.2 How we assess climate-related risks and opportunities	9	Revision	Update on climate change scenario analysis.
5.1 Our approach to investing	9	Addition	Text on engagement as a key lever for reducing emissions – investee companies and fund managers (private markets).
	10	Amendment	Revise exclusion threshold to 70% from ‘pure’; 25% for illiquid assets.
5.2 Acting within different asset classes	10	Addition	Extra data sources used.
	10	Amendment	Reference to Climate Opportunities offering.
	10	Addition	Reference to targets set at portfolio and asset class level.
5.3 Working with external managers	11	Addition	Engagement expectations.
	11	Addition	Encourage managers to set firm wide net zero commitment and join NZAM.
	11	Addition	Working with managers on decarbonisation parameters for mandates.
6. Engagement and advocacy	11	Addition	Reference to engagement with regulators, policy makers etc.
6.1 Our approach to engagement	11	Addition	Additional areas for engagement e.g. Just Transition.
	12	Amendment	Revisions to voting text in line with proposed revisions to Voting Guidelines.
	12	Addition	Reference to use of Net Zero Stewardship Toolkit.
7. Disclosures and	12/13	Amendment	Reporting on Policy

reporting			implementation and progress against Net Zero commitment.
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Conclusion

- 6.1 The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. 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.
- 6.2 The Committee are recommended to consider the draft Border to Coast RI Policy, Corporate Governance and Voting Guidelines, and Climate Change Policy, and approve the realignment of the Lincolnshire Fund's current RI Policy and Corporate Governance and Voting Guidelines.
- 6.3 It is recommended that the Committee consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

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

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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