



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

Report to:	Pensions Committee
Date:	14 December 2023
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 Policy annually. This report highlights the changes from the last versions for the Committee to consider, and to approve the alignment of the new versions 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; and
2. Agrees to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's.

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 and Voting Guidelines, that were aligned to the Border to Coast documents. These are realigned following each annual review, after any

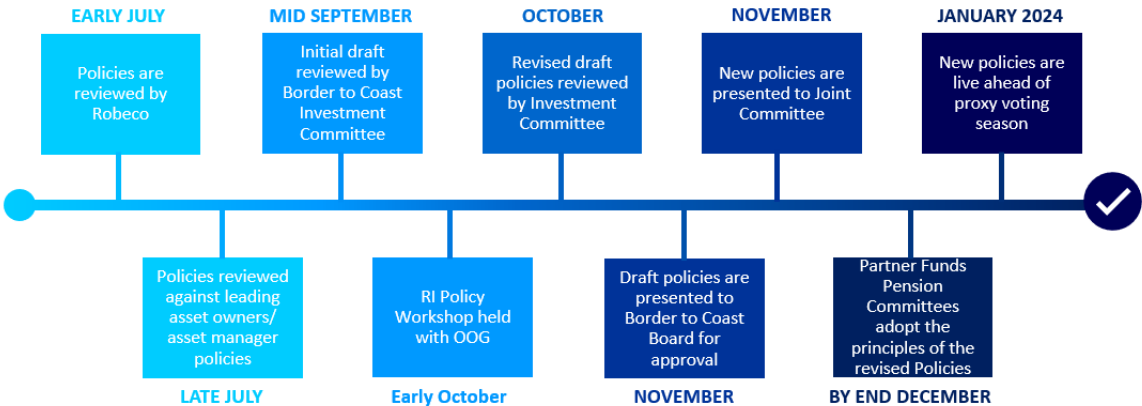
amendments to the Border to Coast policies have been considered by the Committee. The revised Border to Coast policies are attached at appendix A and B.

- 1.3 The first standalone Border to Coast Climate Change Policy was developed in 2021 and published that October. The annual review of this policy is now aligned with that of the other Responsible Investment policies, and the revised policy is attached at appendix C.
- 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 and 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 2024 proxy voting season.

2.2 The review timeline is set out below:



2.3 The current policies were evaluated by Robeco, Border to Coast’s voting and engagement provider, considering the International Corporate Governance Network (ICGN) Global Governance Principles and the changing regulatory environment. 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. In addition, the climate change policies of the other seven LGPS asset pools were also reviewed.

2.4 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 28 November 2023. 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 suggested improvements from Robeco and work undertaken during the year, including the Net Zero commitment. The key changes include:

- Amendments have been made to all the sections for integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, the impact of Border to Coast's Net Zero commitment and progress made on Real Estate ahead of launch later this year.
- Last year some specific wording on human rights was included, as this is an area gaining more prominence for investors. This has been expanded to include how Border to Coast engage.
- An area continuing to gain focus from an investment perspective is biodiversity. Border to Coast is currently engaging on biodiversity issues through their support of the Investor Policy Dialogue on Deforestation Initiative (IPDD), through Robeco and as part of the Waste and Water theme and engagement on climate change. Therefore, a high-level overview has been inserted into the RI Policy which covers the approach to engagement.
- The climate change section of the RI Policy has been significantly reshaped following the publication of a standalone Climate Change Policy.
- The exclusions section has been revisited, as set out in the paragraphs below.

3.2 When considering any exclusions, the associated material financial risk of a company's business operations is considered and whether there are 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. The impact on the investible universe and the benchmarks the portfolios are measured against is also assessed. In addition, the review considers the policies and approach of asset managers and asset owners seen as leaders in this area.

3.3 Revenue thresholds for thermal coal and oil sands production have been reviewed, with analysis conducted across equity and fixed income funds, associated benchmarks and the MSCI Universe to identify potential companies that managers may also invest in off benchmark. Following in-depth discussion by the Border to

Coast's Investment Committee, the exclusion thresholds for thermal coal and oil sands production has been reduced to 25% (aligned with illiquid assets) from 70%.

- 3.4 An exclusion related to thermal coal power generation has been introduced with a revenue threshold of 50% for developed markets. A higher threshold of 70% has been introduced for emerging markets, to reflect Border to Coast's support of a just transition and recognition that countries have differing transition timelines and dependencies on coal and the potential impact on energy availability and economic development.
- 3.5 The exclusion for controversial weapons has been broadened to cover landmines, biological and chemical weapons. This covers international treaties and conventions relating to controversial weapons that the UK has either ratified or is a state party to.
- 3.6 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.
- 3.7 The impact of the changes to the exclusions on the investable companies in the benchmark is set out below, to provide context to the changes:

Total No of Companies	>25% of revenue from Thermal Coal	>25% of revenue from Oil Sands	Controversial Weapons
11,000	41 (21 at >70%)	5 (3 at >70%)	14 (increase of 3)

- 3.8 The amendments to the RI policy are detailed in the table below:

Section	Page	Type of Change	Rationale
2. What is responsible investment	3	Addition	RI approach potential to add value.
5. Integrating RI into investment decisions	4	Addition	Add just transition to the table under social issues.
	4	Addition	Additional text on human rights and engagement.
	4	Addition	New text on biodiversity as an investment risk and how Border to Coast engage.
5.1 Listed equities	5	Addition	More detail on integration process.
5.2 Private markets	5/6	Addition	Additional information on annual questionnaire and involvement in industry initiatives.

5.3 Fixed Income	6	Amendment	Moved text on engagement.
5.4 Real Estate	6/7	Amendment	Updated for progress made ahead of launch.
5.5 External manager selection	7	Addition	Update on engagement to support net zero; PRI assessment considered in selection and monitoring.
5.6 Climate change	7/8	Amendment	Amendment to wording on just transition and expectations of companies.
	8	Addition	Additional wording on net zero and stewardship.
6. Stewardship	8	Amendment	Inserted “where appropriate” regarding litigation.
6.2 Engagement	11	Amendment	Engagement with the wider industry to create stable environment.
6.2.2 Escalation	12	Addition	Extra tools as part of escalation.
6.2.3 Exclusions	12/13	Amendments and addition	Revenue thresholds reduced for thermal coal and oil sands. Controversial weapons exclusions broadened. New exclusion for thermal coal power generation.
9. Training and assistance	14	Addition	Included wider colleagues.

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 2023 have also been used in the review process. There are several minor amendments and proposed additions covering diversity and climate change. The key changes include:

- Border to Coast’s voting stance in relation to diversity representation at board level, for both gender and ethnicity, has been strengthened this year. This is to

reflect the FCA’s listing rules and also expectations of FTSE 250 companies to be meeting the Parker Review recommendations.

- Border to Coast have further strengthened the approach to climate-related voting and will now include a fifth Climate Action 100+ (CA100+) Net Zero Benchmark indicator, covering a company’s decarbonisation strategy. They are also adding the Urgewald Global Coal Exit List to the industry benchmarks (CA100+, TPI), used to assess whether companies are making sufficient progress.

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

Section	Page	Type of Change	Rationale
Diversity	5	Amendment	Expectations of UK companies on board gender diversity.
		Addition	FTSE 250 on racial diversity and US companies.
Audit	9	Addition	Plans to retender.
Shareholder proposals	12	Addition	General stance on proposals aligned with Paris Agreement.
Climate change	13	Addition	5 th CA100+ Net Zero Benchmark indicator added.
		Addition	Adding Urgewald Global Coal Exit List as industry benchmark tool.
		Amendment	Caveat around TPI scoring and data.
		Addition	Stance on Say on Climate items not aligned with Paris Agreement.

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 climate change approaches of the other seven LGPS asset pools have also been reviewed. The main changes reflect the work undertaken to support Border to Coast’s Net Zero commitment and are detailed below:

- Additional wording has been added about why climate change is important to Border to Coast as an investor. This has been taken from the Climate Change Report and includes reference to the role they need to play through engagement and the investment opportunities for investors and how this will support the Partner Funds.
- Reference to the Net Zero targets has been included in the ‘Our ambition – Net Zero section’ with detail on the specific targets for carbon reduction alignment and engagement. This has been moved from a later section of the policy.
- A paragraph has been included on how Border to Coast have considered the different climate scenarios available, those which they will be using, and the limitations and associated risks of climate modelling.
- The approach to exclusions has been updated in line with the RI Policy with the lower revenue thresholds for public market companies for thermal coal and oils sands production (now aligned with illiquid assets) and the introduction of an exclusion for thermal coal power generation.
- Additional wording has been added on the importance of engagement in meeting the Net Zero goal and the targets that have been set. The focus actions for the next and subsequent years have been updated which includes the voting approach to ‘Say on Climate’ resolutions and climate-related shareholder resolutions.

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

Section	Page	Type of Change	Rationale
2.2 Why climate change is important to us	3	Addition	Additional wording taken from the Climate Change Report – importance, our role, and opportunities.
		Amendment	Revision to just transition wording.
3.1 Our ambition – Net Zero	5/6	Addition	Inserted reference to Net Zero targets – wording

			moved from 5.2.
3.3 Division of roles and responsibilities	6	Addition	Wording in line with Climate Change Report.
4.1 How we identify climate-related risks	7	Revision	Wording in line with Climate Change Report.
4.2 How we assess climate-related risks and opportunities	8	Addition	Update on climate change scenario analysis – in line with Climate Change Report.
5.1 Our approach to investing	8/9	Addition	Additional wording on consideration when excluding.
		Amendment	Revise exclusion threshold for thermal coal and oil sands.
		Addition	New exclusion on thermal coal power generation.
5.2 Acting within different asset classes	9	Amendment	Paragraph moved to 3.1.
		Addition	Approach for Real Estate
6.1 Our approach to engagement	10/11	Amendment	Inserted “where considered to be appropriate” regarding litigation.
		Addition	Reference to engagement and targets.
		Amendment /addition	Focus areas including voting and engagement.
7. Disclosures and reporting	12	Amendment	Revised wording on transparency and reporting.

6.0 Lincolnshire Pension Fund’s consideration of climate reporting and net zero

- 6.1 As the Committee are aware, there will be a regulatory requirement to consider the impact of climate change on the Pension Fund, across various scenarios, and to detail any plans towards achieving net zero. It is expected that this reporting requirement, equivalent to the private sector’s current requirement for TCFD (Taskforce on Climate-related Financial Disclosures) reporting, will be in place for the 2024/25 financial year, with reporting required by December 2025.
- 6.2 To start the process of the Committee considering the Fund’s position on net zero and climate reporting, Barnett Waddingham have been invited to the January meeting of this Committee to provide a training session on climate risk which, rather than getting into the detail, looks at the bigger picture. The training will cover the following areas:

- An overview of climate change concepts, the definitions, explaining jargon and terminology.
- Ways in which climate change can impact your Fund covering assets, liabilities and covenant.
- An overview of climate risk disclosure rules.

6.3 Unlike the Responsible Investment Policy and the Corporate Governance and Voting Guidelines, the Fund does not have a Climate Change Policy to align with the Border to Coast policy. It was agreed at the December 2022 meeting that the Committee consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations, so this will form part of the discussions to be had in 2024.

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.

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.

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