

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 9

TEESSIDE PENSION FUND COMMITTEE REPORT

22 JANUARY 2020

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines

1 PURPOSE OF THE REPORT

- 1.1 To advise the Committee of recent changes made by Border to Coast Pensions Partnership Limited ('Border to Coast') to its Responsible Investment Policy and Corporate Governance Voting Guidelines.

2 RECOMMENDATION

- 2.1 That Members note and approve the revised Border to Coast documents that are included as appendices A and B to this report.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no particular financial implications arising from this report.

4 BACKGROUND

- 4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require the Fund to have a policy on:
- environmental, social and governance (ESG) considerations. The policy is required to take into account the selection, non-selection, retention and realisation of assets, and
 - the exercise of rights, including voting rights attached to investments.
- 4.2 To allow a practical and consistent approach to pooled investments, Border to Coast developed a Responsible Investments Policy and a Corporate Governance and Voting Guidelines document for all 12 Partner Funds to approve that applies across all the investments it holds on their behalf. These documents are subject to annual review.
- 4.3 Border to Coast has worked with its voting and engagement partner Robeco to update the documents, using the International Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks. The Partner Fund officers have had the opportunity to input to the revised documents, which were also shared with Border to Coast's Joint Committee at its 20 November 2019 meeting.

4.4 The administering authorities of all 12 of Border to Coast’s Partner Funds are being asked to approve the revised documents, which do not contain any changes to underlying principles. The main changes are to reflect the new Shareholder Rights Directive that came into force in 2019 and to continue the clarification of Border to Coast’s intentions on voting and alignment with the Principles for Responsible Investment.

5 UPDATES AND CHANGES TO THE DOCUMENTS

5.1 The changes to the Border to Coast Responsible Investment Policy and the Border to Coast Corporate Governance and Voting Guidelines, together with the rationale for those changes are set out in the following tables:

Responsible Investment policy:

Section	Page	Type of Change	Rationale
Introduction	2	Addition / Clarification	Investment time horizon.
Integrating Responsible Investment into investment decisions	3	Addition	Additional Environmental Social and Governance issues: water stress, data privacy, single-use plastics, political lobbying.
Climate change	5/6	Addition Clarification	Extra detail on climate change as a systemic risk. Additional detail on risks and opportunities. Change from ‘will therefore look to’ to ‘is’
Stewardship Use of proxy advisers	6/7	New sub-section	To comply with Shareholder Rights Directive II (SRD II), need to name and describe use of proxy advisers.
Engagement	8/9	Restructuring	Bullet points for engagement strands.
Escalation	9	Addition Addition – new sub-section	Detail on engagement process – required by Principles for Responsible Investment (PRI) & SRD II/ Financial Reporting Council. Detail on options when initial engagement ineffective – required by PRI.
Due diligence and monitoring	9/10	Addition – new sub-section	Detail of audit of stewardship activities – required by PRI.

Corporate Governance & Voting Guidelines

Section	Page	Type of Change	Rationale
Company Boards – Composition and independence	3	Addition / Clarification	Change of “9 years” to “9-12 years”. Clarification that this will also depend on market practice.
Leadership	4	Addition	Changed ‘must’ to ‘should’ to cover market practice outside the UK
Diversity	5	Clarification	Additional wording to clarify stance.
Board Evaluation	5	Addition	Good practice for Board to disclose these evaluations.
Directors’ remuneration – Long-term incentives	7	Addition Addition	Transparency on pay ratios Encourage Executive Directors to hold stock to align interests with those of shareholders.
Directors’ contracts	8	Addition	Limit termination benefits in-line with market best practice.
Audit	8	Addition	Publish audited financial statements ahead of shareholder voting 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	9	Clarification	Ensure money not being used to fund political parties
Lobbying	9	Clarification	Alignment of company and trade association values.

6. NEXT STEPS

- 6.1 Border to Coast will continue to develop and update its approach to Responsible Investment and Corporate Governance. A Responsible Investment workshop is due to be held in March for Pension Fund Committee Chairs and officers with the intention of seeking feedback on some of the more complex areas of responsible investment to help develop the collective approach. Border to Coast’s Head of Responsible Investment will attend a future Committee meeting to give an update on this and other Responsible Investment issues.

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