

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 11

TEESSIDE PENSION FUND COMMITTEE REPORT

14 DECEMBER 2022

DIRECTOR OF FINANCE – HELEN SEECHURN

Border to Coast Responsible Investment Policy, Corporate Governance & Voting Guidelines and Climate Change Policy

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, Corporate Governance & Voting Guidelines and Climate Change Policy.

2 RECOMMENDATION

- 2.1 That Members note and approve the revised Border to Coast documents that are included as tracked changes versions in Appendices A, B and C 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 Investment Policy and a Corporate Governance and Voting Guidelines document for all its Partner Funds to approve that applies across all the investments it holds on their behalf. Last year, Border to Coast also introduced a standalone Climate Change Policy.
- 4.3 The Responsible Investment Policy, Corporate Governance & Voting Guidelines and Climate Change Policy are reviewed annually or when material changes need to be made. The annual review process commenced in summer to ensure any revisions are in place ahead of the 2023 proxy voting season.

- 4.4 Border to Coast has worked with its voting and engagement partner Robeco to update the documents, using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and to reflect changes in market best practice. 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 30 November 2022 meeting.

5 RESPONSIBLE INVESTMENT POLICY - KEY CHANGES

- 5.1 This year's Responsible Investment Policy review reflects work undertaken during the year, including Border to Coast's commitment to Net Zero – a commitment to achieving net-zero greenhouse gas emissions across its investments by 2050 or sooner.
- 5.2 Border to Coast has highlighted its expectation of companies in relation to Human Rights within the Responsible Investments Policy, which now includes the following:

“When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain.”

- 5.3 Revenue thresholds for thermal coal and oil sands have been reviewed, taking into account key financial risks, including the potential for stranded assets the revised policy states: “we will not invest in companies with more than 70% of revenues derived from thermal coal and oil sands. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time”. Due to the illiquid nature of private markets the threshold is set lower at 25%.
- 5.4 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. Additional screening tools are now available allowing better analysis of cluster munition companies. Consequently, the exclusion policy will now 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.
- 5.5 With increased exclusions, the policy has been adapted to include a separate section specifically detailing the exclusions approach.

- 5.6 A 'tracked changes' version of the new Responsible Investment Policy is included at Appendix A, and a summary of the amendments is shown 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 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 & 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 & 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.

6 CORPORATE GOVERNANCE & VOTING GUIDELINES - KEY CHANGES

- 6.1 The Corporate Governance & Voting Guidelines have been reviewed by Robeco, Border to Coast's voting and engagement provider, to take into account current 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.
- 6.2 Some additions/amendments have been made to reflect best practice or local market standards, as one set of guidelines covers all markets.

- 6.3 A new section on human rights has been included to support the addition to the Responsible Investment Policy.
- 6.4 A 'tracked changes' version of the new Corporate Governance & Voting Guidelines is included at Appendix B and a summary of the amendments is shown in the table below:

Section	Page	Type of Change	Rationale
Composition and independence	3 4	Amendment Addition	Remove 'large cap'. 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 13 13 13	Amendment Amendment Addition Addition	Text amended to reflect changes to Climate Change Policy. Revised thresholds for TPI and CA100_ indicators. New text regarding banks New text on just transition.

7 CLIMATE CHANGE POLICY - KEY CHANGES

- 7.1 The Just Transition (the goal of moving to a more sustainable global economy in a way that is fair to everyone) was not previously referenced in the Policy, but is included in this version. This is an important area as the transition to a low carbon economy should consider all stakeholders and be inclusive whilst recognising global inequalities.
- 7.2 As Border to Coast has used the Net Zero Investment Framework (NZIF) and joined the Net Zero Asset Managers initiative (NZAM) this has 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.
- 7.3 As mentioned in the Responsible Investment Policy (see 5.3 above), revenue thresholds for thermal coal and oil sands have been reviewed, taking into account key financial risks, including the potential for stranded assets.

7.4 A 'tracked changes' version of the new Climate Change Policy is included at Appendix C and a summary of the amendments is shown 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 – Net zero	7	Amendment	Reference use of NZIF and 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 reporting	12/13	Amendment	Reporting on Policy implementation and progress against Net Zero commitment.

8. NEXT STEPS

- 8.1 Border to Coast will continue to work with its Partner Funds to develop and update its approach to Responsible Investment (including Climate Change) and Corporate Governance.

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