

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

TEESSIDE PENSION FUND COMMITTEE REPORT

13 DECEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

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 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 (RI) 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. In 2021, 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 2024 proxy voting season.

- 4.4 Border to Coast has worked with its voting and engagement partner Robeco to update the documents, 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. All seven other pools climate change policies were also reviewed.
- 4.5 Regular RI workshops were held during the year for the Officers Operation Group and the Joint Committee. Areas covered included the RI strategy, the regulatory landscapes, thematic engagement, the voting process and climate-related voting. A separate working group was set up with Partner Funds' officers covering reporting carbon emissions.
- 4.6 Partner Funds were asked for input early in the review process and a common area of interest was the reduction of revenue thresholds for thermal coal and oil sands production. A workshop was held with the Officer Operation Group of the Partner Funds on 3 October, and the proposed revised Policies were shared with officers and feedback received from two Partner Funds. This was requesting the impact on the investible universe of reducing revenue threshold levels and broadening the controversial weapons definition, the voting implications of raising the threshold for gender diversity for UK companies, and wording on scenario analysis.
- 4.7 The approach to exclusions was reviewed as part of the policies review process. More detail is included at section 5 of this report.
- 4.8 These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the draft policies.
- 4.9 Partner Funds have been asked to complete their review and approve the revised policies by the end of 2023 so that Border to Coast can apply the revised policies and disclose their voting intentions to companies prior to the peak season.

5 RESPONSIBLE INVESTMENT POLICY - KEY CHANGES

- 5.1 This year's RI Policy review reflects suggested improvements from Robeco and work undertaken during the year; including on Border to Coast's Net Zero commitment.
- 5.2 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 Border to Coast's Net Zero commitment and progress made on Real Estate ahead launch.
- 5.3 The wording on human rights has been expanded to include how Border to Coast will engage.
- 5.4 An area continuing to gain focus from an investment perspective is biodiversity. Border to Coast is currently engaging on biodiversity issues through its support of the Investor

Policy Dialogue on Deforestation Initiative (IPDD), through Robeco and as part of a Waste and Water theme and its engagement on climate change. Therefore, a high-level overview has been inserted into the RI Policy which covers Border to Coast's approach to engagement.

- 5.5 As part of this year's annual review the approach to exclusions has been revisited. When considering any exclusions, Border to Coast considers the associated material financial risk of a company's business operations and whether they have 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. Border to Coast also assess the impact on the investible universe and the benchmarks its portfolios are measured against.
- 5.6 To support Border to Coast's Net Zero and to send a clear signal on intentions, the recommendation is to reduce the exclusion thresholds to 25% for thermal coal and oil sand production (aligned with illiquid assets).
- 5.7 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 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.
- 5.8 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.
- 5.9 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.
- 5.10 The changes to the exclusions approach are not expected to lead to any significant changes to Border to Coast's existing investment portfolios as these risks are already reflected in the investment decision making process. Partner Funds will be able to assess this through performance versus respective benchmarks for the investment funds. This is an area Border to Coast will continue to engage with Partner Funds as to how this develops over time.
- 5.11 The proposed amendments to the RI policy and Border to Coast's rationale for these changes are listed in the table below.

Section	Page	Type of Change	Rationale
2. What is responsible investment	3	Addition	RI approach potential to add value (reflecting our Chair's comments).
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 we 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 a 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 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.

6 VOTING GUIDELINES - KEY CHANGES

- 6.1 The 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 were also used in the review process. There are several minor amendments and proposed additions covering diversity and climate change.
- 6.2 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 Financial Conduct Authority’s listing rules and also expectations of FTSE 250 companies to be meeting the Parker Review recommendations.
- 6.3 Border to Coast has further strengthened its 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 (A100+, Transition Pathway Initiative) used to assess whether companies are making sufficient progress.
- 6.4 Proposed amendments to the Corporate Governance & Voting Guidelines are highlighted 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.

7. CLIMATE CHANGE POLICY - KEY CHANGES

- 7.1 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 pools have also been reviewed.

- 7.2 The main changes reflect the work undertaken to support Border to Coast’s Net Zero commitment and are detailed below.
- 7.3 Additional wording has been added about why climate change is important to Border to Coast as an investor. This includes reference to the role Border to Coast needs to play through engagement and the investment opportunities for investors and how this will support Partner Funds.
- 7.4 Reference to Border to Coast’s Net Zero targets have 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.
- 7.5 A paragraph has been included on how Border to Coast has considered the different climate scenarios available, those which they will be using and the limitations and associated risks of climate modelling.
- 7.6 Border to Coast’s 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.
- 7.7 Additional wording has been added on the importance of engagement in meeting Border to Coast’s Net Zero goal and the targets they have set. The focus actions for the next and subsequent years have been updated which includes their voting approach to ‘Say on Climate’ resolutions and climate-related shareholder resolutions.
- 7.8 The amendments to the Climate Change Policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
2.2 Why climate change is important to us	3	Addition Amendment	Additional wording taken from the Climate Change Report – importance, our role, and opportunities. Revision to just transition wording.
3.1 Our ambition – Net zero	5/6	Addition	Inserted reference to our 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 Amendment Addition	Additional wording on consideration when excluding. Revise exclusion threshold for thermal coal and oil sands. New exclusion on thermal coal power generation.
5.2 Acting within different asset classes	9	Amendment Addition	Paragraph moved to 3.1. Approach for Real Estate.
6.1 Our approach to engagement	10/11	Amendment Addition Amendment / addition	Inserted 'where considered to be appropriate' regarding litigation. Reference to engagement and targets. Focus areas including voting and engagement.
7. Disclosures and reporting	12	Amendment	Revised wording on transparency and reporting.

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.

CONTACT OFFICER: Nick Orton, Head of Pensions Governance & Investments

TEL NO: 01642 729040