

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 11

TEESSIDE PENSION FUND COMMITTEE REPORT

11 DECEMBER 2024

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 changes made to the Border to Coast documents – relevant extracts 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. The latest version of all three documents (as approved at the 13 December 2023 Pension Fund Committee) can be found on Border to Coast's website at the following link:
https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Responsible%20Investment%20Policies

- 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 2025 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 (IGCN) Global Governance Principles and to reflect market best practice. The Policies have also been reviewed against asset managers and asset owners considered to be RI leaders. A gap analysis has also been undertaken against the Investor Group on Climate Change (IIGCC) Net Zero Voting Guidelines.
- 4.5 As agreed with Partner Funds earlier in the year, Border to Coast has undertaken a 'light touch' review this year. The only material proposed change to highlight is a change on voting in relation to deforestation as a climate change issue. The revised documents have been through an approval process at Border to Coast and Border to Coast's Joint Committee has recommended they be presented to all Partner Fund's for approval.

5. POLICY CHANGES PROPOSED

- 5.1 This year's review has been 'light touch'. However, it also reflects minimal suggested improvements from Robeco and resulting from asset owner and asset manager assessments. All changes are shown as track changes in the attached Appendices.
- 5.2 The exclusion approach has been reviewed as part of this annual review, with no changes proposed.
- 5.3 One area that was identified where Border to Coast has less explicit policy than peers is on the issue of nature/biodiversity, with some asset managers and asset owners disclosing specific policies or approaches. Aviva and Church of England are members of the Finance Sector Deforestation Action (FSDA) initiative and have a 2025 target to "eliminate agricultural commodity-driven tropical deforestation from our portfolio."
- 5.4 Border to Coast's current activity on biodiversity centres on company engagement, including dedicated Robeco engagement programmes, integration into Border to Coast's Waste and Water and Climate Change engagement themes, and support for the Investor Policy Dialogue on Deforestation Initiative (IPDD). Border to Coast has also commenced quarterly monitoring of external manager activity on biodiversity. Border to Coast has no explicit voting policy, engagement theme, or integration of risk specific for nature/biodiversity.
- 5.5 This year's proposed changes relate to voting and deforestation as a climate change issue and are reflected in revisions to the Voting Guidance and Climate Change Policy. This supports progress on nature/biodiversity as a larger theme and addresses the absence of related voting policy.

6. RI POLICY – KEY CHANGES

6.1 The proposed amendments to the RI policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
5.2 Private markets	5	Amendment	Updated to remove 'believes' and clarify that ESG risk forms part of the risk management framework.
5.4 Real estate	6	Amendment	Updated following fund launches and ESG scorecard.

7. VOTING GUIDELINES - KEY CHANGES

- 7.1 Last year, Robeco introduced voting policy in relation to deforestation, which Border to Coast did not adopt at the time. This year's assessment of best practice asset owners and asset managers' voting policies identifies deforestation as a gap in Border to Coast voting policy. Brunel and Aviva have specific deforestation voting policy, which take the same approach as Robeco.
- 7.2 The only material proposed change to voting policy this year relates to deforestation as a climate change issue, mirroring Robeco's approach.
- 7.3 Regulatory pressures on companies to curb deforestation are increasing, with the EU agreeing regulation which will require companies to conduct due diligence on commodity imports to ensure they are deforestation free. It is now widely recognised that deforestation can result in the loss of market access, more expensive financing, stranded assets, regulatory costs, and reputational risk.
- 7.4 To give a sense of policy impact, if these changes had been introduced for the 2024 AGM season, Border to Coast would have voted against the Chair of the Sustainability Committee (or most appropriate agenda item) at seven companies with high exposure to deforestation risk commodities and inadequate policies. Only one holding was subject to a shareholder proposal requesting mitigation of deforestation risk in 2024, which Border to Coast supported. Adding specific wording to the policy to support such resolutions formalises our current approach.

7.5 The proposed amendments to the Voting Guidelines are highlighted in the table below.

Section	Page	Type of Change	Rationale
Shareholder proposals	12	Addition	General stance on proposals requesting mitigation of deforestation risk.
Climate change	13	Addition	Stance on companies with high exposure to deforestation risk commodities.

8. CLIMATE CHANGE POLICY - KEY CHANGES

8.1 The Climate Change Policy has been reviewed by Robeco and Border to Coast’s RI Team has compared it against those of other asset managers and asset owners including Brunel, RLAM, Aviva, and Church of England, to determine developments across the industry.

8.2 The Robeco review states “Overall, it is a very well-developed policy, covering all relevant areas and components”

8.3 The changes are detailed below and primarily relate to voting policy on deforestation.

Section	Page	Type of Change	Rationale
2.1 Our views and beliefs on climate change	3	Amendment	Correction regarding the objective of the Paris agreement
3.1 Our ambition – Net Zero	5	Amendment	Correction regarding 1.5C target
6.1 Our approach to engagement	10	Addition	General stance on proposals requesting mitigation of deforestation risk. Stance on companies with high exposure to deforestation risk commodities.

9. IMPACT ASSESSMENT

9.1 Any financial implications are in respect of implementation and fulfilment of the policies. The cost of implementing the new voting policy on deforestation is negligible. Based on the 2024 AGM season, Border to Coast would need to write to circa seven companies to advise of votes against management.

10. NEXT STEPS

10.1 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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