

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION FUND COMMITTEE REPORT

3 FEBRUARY 2026

DIRECTOR OF FINANCE AND TRANSFORMATION – ANDREW HUMBLE

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 11 December 2024 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 currently reviewed annually or when material changes need to be made. It is proposed that a three-year formal review cycle is now more appropriate for the RI Policy and Climate Change Policy. This will follow the existing governance process. The Corporate Governance & Voting Guidelines will continue to be reviewed annually to ensure they are fit for purpose ahead of each proxy season. The annual review process commenced in July to ensure any revisions are in place ahead of the 2026 proxy voting season.
- 4.4 Border to Coast has worked with its voting and engagement partner Robeco to update the documents considering the global context and shift in best practice, to determine how best practice has developed and identify emerging gaps in Border to Coast policy. The Policies have also been reviewed against asset managers and asset owners considered to be RI leaders to determine developments across the industry.
- 4.5 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. FUTURE REVIEW CYCLE

- 5.1 The Policies have been formally reviewed each year, but they have reached a level of maturity where less frequent review is appropriate.
- 5.2 Border to Coast propose moving to a three-year formal review cycle for the Responsible Investment Policy and Climate Change Policy, still following the existing governance process when reviewed. The Voting Guidelines will continue to be reviewed annually to ensure they remain aligned with market standards ahead of each proxy voting season. If significant issues arise, changes can be made outside the normal cycle, and Border to Coast will maintain a tracker of Partner Fund feedback to ensure these are captured and considered at the next review.
- 5.3 Moving to a three-year formal review cycle for the Responsible Investment Policy and Climate Change Policy will provide a more stable governance environment, enabling the opportunity for more comprehensive and fundamental reviews rather than incremental changes. This approach aligns with Border to Coast's intention to undertake a broader governance review under the new partnership model in circa 2 years.

6. RI POLICY – KEY CHANGES

6.1 This year's review has been conducted in alignment with the RI Strategy and Engagement Strategy reviews.

6.2 The exclusion approach has been reviewed as part of this annual review. Robeco suggested that the current 50% revenue threshold for thermal coal power generation exclusion is relatively high, with industry norms typically being around 25%, with Robeco having a 20% exclusion. Border to Coast's RI team's review confirmed this finding. Border to Coast propose to lower the thermal coal power generation revenue threshold from 50% to 25% for public issuers in developed markets. This aligns with the original intent and expectation of this exclusion clause when it was introduced and brings it in line with the current revenue threshold for thermal coal extraction (also 25%). Border to Coast propose to maintain their tiered approach to support a just transition and reduce the revenue threshold from 70% to 50% for public issuers in emerging markets.

6.3 Based on data as at August 2025, the proposed change to the revenue thresholds for thermal coal power generation brings an additional 21 developed market issuers and 11 emerging market issuers into scope for exclusion on top of 24 issuers excluded under the current revenue thresholds. Border to Coast currently holds one issuer that would become excluded, Eskom Holdings, held in the Multi Asset Credit fund. They have consulted with the portfolio manager and no concerns have been raised in relation to this change.

6.4 Last year, Border to Coast updated The Policies to recognise deforestation as a climate issue. This helped close a gap with peers on nature related risks. This was an important first step in establishing a risk framework for nature and biodiversity. While most managers use deforestation data in voting, fewer have a comprehensive approach to nature risks. To make continued progress in their approach, Border to Coast propose introducing a voting policy targeting a shortlist of nature priority companies. This would further embed nature into the RI and stewardship framework beyond deforestation, with scope for further development in future.

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

| Section | Page | Type of Change | Summary of Change and Rationale |
|---|------|----------------|---|
| 5. Integrating RI into investment decisions | 4 | Amendment | Thematic subsections for human rights and nature added to align with climate, which now follows these sections. Asset class guidance is reordered to improve consistency across listed equities, fixed income, and private markets. |

| Section | Page | Type of Change | Summary of Change and Rationale |
|-------------------------------|------|----------------|---|
| 5.2 Nature | 5 | Addition | <p>Include commentary to reflect the new voting approach on nature priority companies.</p> <p><i>"We address nature risks through engagement on issues like deforestation, resource management, and climate change. We integrate nature related risks into voting decisions, using benchmarks to identify priority companies, assess their governance, strategy and measures to address nature related risks, and vote accordingly where risks are poorly managed. Further detail on our voting approach is set out in our Corporate Governance & Voting Guidelines."</i></p> |
| 5.9 Externally Managed Assets | 8 | Amendment | <p>Rename the section from External Manager Selection to Externally Managed Assets to better reflect its focus on RI practices rather than manager selection only.</p> |
| | 8 | Amendment | <p>Remove reference to NZAM due to uncertainty around its status, replacing it with broader support for "collaborative initiatives on systemic issues."</p> |
| 6.2 Engagement | 10 | Addition | <p>Improve clarity of engagement definition consistent, most notably:</p> <p><i>"We define company engagement as actively</i></p> |

| Section | Page | Type of Change | Summary of Change and Rationale |
|------------------|------|----------------|--|
| | 11 | Addition | <p><i>using our influence for business change or better disclosure. We believe there should be a point of difference with company management, with examples including letters or meetings to request changes to business strategy, governance, or capital expenditure, or requesting disclosure of metrics or policy not currently in the public domain. Whilst activity such as attending briefing calls and gathering information is important to investment management, and we collate this information, if there is no point of difference with company management, we do not report it as engagement. We also do not report engagement from collaborations that we are party to if we have not been actively involved. "</i></p> <p>Clarify our role in engaging external managers to improve their RI and stewardship practices.</p> |
| 6.2.2 Escalation | 12 | Amendment | <p>Clarify our stance on engagement and divestment. Most notably include the following:</p> <p><i>"If the investment case has been fundamentally weakened, which may be</i></p> |

| Section | Page | Type of Change | Summary of Change and Rationale |
|------------------|------|----------------|---|
| | | | <i>the result of a company failing to address the risk or concern under engagement, the portfolio manager may decide to reduce or exit the position. This decision rests solely with the portfolio manager. "</i> |
| 6.2.3 Exclusions | 13 | Amendment | Removed repetition of divestment wording and clarify that thermal coal and oil sands extraction and controversial weapons exclusions apply to both public and private markets. Whilst thermal coal power generation apply to public markets only. |
| | 14 | Amendment | Lowered thermal coal generation revenue thresholds from 50% to 25% for developed markets, and from 70% to 50% for emerging markets. |
| | 14 | Addition | Clarify our approach to dual-use components associated with controversial weapons, acknowledge data limitations in private markets which may lead to de minimis exposure. Also recognise potential short term exposures from fund transitions and timing of exclusion implementation. |

7. VOTING GUIDELINES - KEY CHANGES

- 7.1 Robeco have suggested introducing a policy to explicitly address anti-ESG resolutions in the US. These are resolutions that appear to be pro-ESG but typically aim to reverse corporate commitments. Border to Coast propose to assess these resolutions on a case-by-case basis. When Border to Coast report on their level of support across all ESG-related shareholder resolutions, they will remove any resolutions identified as “anti-ESG” from the measure.
- 7.2 Border to Coast propose a voting policy targeting nature priority companies, using the World Benchmarking Alliance Nature Benchmark to identify companies with weak management of nature related risks. Using a materiality lens, a shortlist of companies will be prioritised for further investigation. Like Border to Coast’s human rights framework, they will independently assess governance, strategy, and action. Where credible action is lacking, e.g., poor disclosure, Border to Coast will vote against the most accountable board member or the report and accounts.
- 7.3 In line with Robeco’s recommendations, Border to Coast propose updates to their Voting Guidelines to include their approach to nature priority companies and a statement on anti-ESG resolutions.

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

| Section | Page | Type of Change | Summary of Change and Rationale |
|---------|------|----------------|---|
| Nature | 16 | Addition | <p>Addition of our voting approach on nature priority companies, in step with the increasing focus and appetite for action on nature.</p> <p><i>“Nature related risks arise in many forms, including land use change, habitat destruction, pollution, and water stress. Companies that fail to address these risks may face operational, reputational, and regulatory consequences. Such consequences can be detrimental to financial performance and, therefore, to long term shareholder value. If a company is identified as having poor management of nature related risks, we will consider voting against the most accountable board member or the approval of the report and accounts. We identify nature priority companies through the following steps: We establish any material exposure we have to company’s scoring less than 10 out of 100 on the World Benchmarking Alliance’s Nature Benchmark; We then conduct an independent assessment of companies meeting the above criteria. The assessment looks at alignment to emerging frameworks like the Taskforce on Nature Related Financial Disclosures, any recent controversies related to nature and the level of board oversight regarding nature related risks. The results of the independent assessment highlight priority companies for which we will consider exercising votes as set</i></p> |

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| | | | <i>out above. We place separate emphasis on companies with high exposure to deforestation risk commodities. Such commodities include palm oil, soy, beef, and timber, paper and pulp. We expect companies that have high exposure to deforestation risk commodities to take action to address those risks within their operations and supply chains. Our assessment of the quality of mitigating actions includes reference to external benchmarks, such as Forest500. For companies that have such exposure, and either do not have adequate policies and processes in place to reduce their impact or are involved in severe deforestation-linked controversies, we will oppose the re-election of the Chair of the Sustainability Committee (or most appropriate agenda item) ”</i> |
| Nature | 16 | Amendment | Remove deforestation voting approach from climate voting guidelines and included in the more appropriate nature subsection. |
| Shareholder Proposal | 16 | Addition | Addition highlights the rise in anti-ESG shareholder resolutions, reiterates that we assess resolutions on their own merits and account for them in how we report on our ESG voting record. |

8. CLIMATE CHANGE POLICY - KEY CHANGES

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

| Section | Page | Type of Change | Rationale |
|-------------------------------|------|----------------|---|
| 5.1 Our Approach to Investing | 8 | Amendment | Removal of the specific exclusion threshold text to have one source of reference on all exclusions, in the RI Policy. |

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|-------------------------------|---|-----------|---|
| 5.1 Our Approach to Investing | 8 | Amendment | <p>Following feedback to consider that the pool will be Partner Funds primary source of advice, with feedback from Head of Advisory the following has been amended.</p> <p>“Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.”</p> <p>to</p> <p>“Partner Funds retain responsibility for setting their investment strategy, including their strategic exposure approach to climate risk. Border to Coast is responsible for implementing these strategies through appropriate investment solutions..”</p> |
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9. IMPACT ASSESSMENT

- 9.1 Any financial implications are in respect of implementation and fulfilment of the policies. The additional resources required to implement the new nature voting policy is negligible. Fewer than ten assessments are expected based on a materiality threshold.
- 9.2 The strengthening of the exclusion policy brings an additional 32 issuers (using August 2025 data) into scope for exclusion on top of the existing 24 issuers excluded under the current thermal coal power generation revenue thresholds. Border to Coast currently holds one new issuer that would be excluded.

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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