

## Pension Fund Investment Sub Committee

10 December 2018

### Border to Coast RI Policy

#### Recommendation(s)

1. That the Sub-committee notes and comments on the Border to Coast Pension Partnership revised Responsible Investment policies.
2. That the Sub-committee resolves that the WCC Pension Fund adopt the principles of the Border to Coast Pension Partnership revised Responsible Investment policies.

#### 1.0 Introduction

- 1.1 This report sets out the revised Border to Coast Pension Partnership (BCPP) Responsible Investment Policies (see the Appendix to this report)
- 1.2 The revised BCPP Responsible Investment Policies were approved by the BCPP Joint Committee at their meeting on the 21st November, 2018.

## 2 Supporting Documents

### 2.1. Appendix A - BCPP Responsible Investment Policies Review

	Name	Contact Information
Report Author	Michael Nicolaou	<a href="mailto:michaelnicolaou@warwickshire.gov.uk">michaelnicolaou@warwickshire.gov.uk</a> 01926412227
Head of Service	John Betts	01926 412441 <a href="mailto:johnbetts@warwickshire.gov.uk">johnbetts@warwickshire.gov.uk</a>
Strategic Director	David Carter	01926 412564 <a href="mailto:davidcarter@warwickshire.gov.uk">davidcarter@warwickshire.gov.uk</a>
Portfolio Holder	Bob Stevens	<a href="mailto:bobstevens@warwickshire.gov.uk">bobstevens@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

Local Member(s): None  
Other members: None



## BCPP Joint Committee

**Date of Meeting:** 21<sup>st</sup> November 2018

**Report Title:** Responsible Investment Policies Review

**Report Sponsor:** CEO – Rachel Elwell

### 1 Executive Summary

- 1.1 As part of the initial pooling submission in July 2016, the Government required each Pool to have an approach to responsible investment (RI) with a commitment that a written RI policy would be in place at Pool level by 1st April 2018. Border to Coast's Responsible Investment Policy and Corporate Governance & Voting Guidelines were developed in 2017 in conjunction with the twelve Partner Funds to satisfy this.
- 1.2 Both policies are due to be reviewed annually or whenever revisions are proposed; policies will then be updated as necessary through the appropriate governance channels. The process for review included the participation of all the Partner Funds; this is to ensure that we continue to have a strong, unified voice.
- 1.3 The proposed revised policies do not contain any changes to underlying principles. They have been updated following feedback from our voting and engagement partner, Robeco, to enable clearer implementation of the policies. They also reflect the changes required to facilitate Border to Coast becoming a signatory to the UNPRI.
- 1.4 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2019 proxy voting season.

### 2 Recommendation

- 2.1 That the Joint Committee reviews and comments on the proposed revisions to the RI Policy (Appendix 1) and Corporate Governance & Voting Guidelines (Appendix 2).
- 2.2 That the Joint Committee supports taking the revised policies to the Partner Funds for comment and for them to consider adoption of the principles in their own RI policies in-line with industry best practice.

### **3 Background**

- 3.1 Border to Coast takes a holistic approach to sustainability; it is therefore at the core of our corporate and investment thinking. We are a strong supporter of Responsible Investment and will hold companies to account on environmental, social and governance (ESG) issues and be active stewards of the assets in which we invest.
- 3.2 We will do this through voting, monitoring companies, engagement and litigation. The Border to Coast Responsible Investment policy sets out our approach to RI and stewardship, and the Corporate Governance & Voting Guidelines sets out the approach and principles to voting. The aim is to manage risk and generate sustainable, long-term returns for our Partner Funds.
- 3.3 The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. The day-to-day administration and implementation however, will be done by Border to Coast on assets managed by us, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements
- 3.4 To leverage scale and for operational purposes, a collaborative RI policy and Corporate Governance & Voting Guidelines have been developed in conjunction with Partner Funds. These policies are to be enacted on behalf of our Partner Funds in relation to assets managed by Border to Coast. This will ensure clarity of approach, give a consistent message and a stronger voice, with the ability to exert greater influence and change by working together.

### **4 Review process**

- 4.1 The RI policy and Corporate Governance & Voting Guidelines were originally reviewed and agreed by the Joint Committee in October 2017; therefore, policies are now due for their first annual review.
- 4.2 The existing policies were evaluated by Robeco, the voting and engagement provider, considering the global context (the previous policies being relatively UK-centric) and best practice. Border to Coast is committed to becoming a signatory to the UN Principles for Responsible Investment (PRI); this will have an impact on both policies resulting in a number of changes (particularly regarding decision making, governance and reporting).
- 4.3 The revised UK Corporate Governance Code was taken into account when reviewing and amending both policies. The policies of best in class asset managers, and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. The revised policies are considered to be in-line with industry best practice.
- 4.4 The review process with Partner Funds began with a RI workshop to walk through the RI strategy and process for review. Following the workshop draft policies were presented to the Officers Operation Group (OOG) for comment.
- 4.5 After considering any comments from the OOG, the policies were put to Border to Coast's Investment Committee, presented to the Board and approved for sharing with

the Partner Funds. The policies are being presented to the Joint Committee for review and comment. The expectation is then for Partner Funds' Committees to begin their own review process with the ultimate objective to align policies where appropriate.

## **5 Partner Fund comments**

- 5.1 Comments were received from Cumbria Pension Fund, South Yorkshire Pensions Authority and Tyne & Wear Pension Fund.
- 5.2 The main points from Cumbria were in relation to the Corporate Governance & Voting Guidelines; it was suggested that lobbying be split out from political donations, and a slight rewording was proposed in relation to director availability.
- 5.3 South Yorkshire raised points for potential inclusion in the Corporate Governance & Voting Guidelines. On auditor rotation, the view was that the independence of the auditor is key; therefore, rotation of the audit partner is not sufficient. Lobbying was also raised with suggestions regarding increased disclosure of lobbying and industry bodies. Comments made on the RI policy were in relation to climate change; expectations for all companies to have a business strategy for a low carbon transition; and commitments by Border to Coast to reduce carbon across portfolios.
- 5.4 Tyne & Wear raised the issue of share blocking and how Border to Coast would consider this in the markets where it is general practice.
- 5.5 The points raised by Cumbria and South Yorkshire were discussed at the OOG meeting. There was agreement on strengthening the wording in relation to auditor independence and inserting a sub-section specific to lobbying. Officers were otherwise supportive of the policies put to the meeting.

## **6 Key changes**

- 6.1 The Corporate Governance & Voting Guidelines are UK centric and therefore need to be expanded to reflect global corporate governance trends, not just UK best practice. The revised UK Corporate Governance Code was also considered when making revisions. The key changes to this policy are the inclusion of sections referring to board evaluation, stakeholder engagement, virtual shareholder meetings, shareholder proposals and share blocking. Other amendments to the policy have been made to reflect global variations in best practice and cover board composition, diversity and remuneration.
- 6.2 The RI policy has undergone a substantial rewrite; this however has not changed the underlying principles. The policy has now been written from the perspective of Border to Coast and reflects changes required to be able to satisfy PRI reporting requirements in the future. The governance and implementation section has been expanded; additional detail has been included regarding integrating RI into the investment process per asset class; and the section on engagement includes greater detail on the different approaches taken.

## **7 Financial implications**

7.1 Any financial implications are in respect of implementation and fulfilment of the policies. The cost of the external voting and engagement provider and RI initiatives have previously been approved. Additional spend will be in relation to ESG data providers, and ongoing training and development of staff through attendance at conferences and specific training events.

## 8 Risks

8.1 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering our partner funds' objectives. There may be reputational risk if we are perceived to be failing in our commitment of this objective.

8.2 Commitment to RI is becoming increasingly important to the Partner Funds. In order to maintain collective policies and the strong voice this gives us, we need to ensure that all Partner Funds are in agreement.

## 9 Conclusion

9.1 The Joint Committee is asked to consider the recommendations made at section 2.

## 10 Author

Jane Firth, Head of Responsible Investment  
7<sup>th</sup> November 2018

## 11 Supporting Documentation

**Appendix 1: Draft Border to Coast Responsible Investment Policy (tracked changes included)**

# Responsible Investment Policy

## Border to Coast Pensions Partnership



October 2018

## Document Control

### 1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1 <sup>st</sup> draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.		10 <sup>th</sup> Oct 2018
V0.3	2 <sup>nd</sup> draft reflecting OOG amendments		19 <sup>th</sup> Oct 2018

### 2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	X.X	XX

### 3. Board Approval

Approved By	Version	Date
The Board	X.X	XX

### 4. Key Dates

Event	Date
Effective Date	22/11/2018
Next Review Date	01/08/2019

### 5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer

Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Joint Committee	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed

## Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

### 1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorized investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement.

As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in

conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

## **2. What is responsible investment?**

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns. Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

## **3. Governance and Implementation**

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure. The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

## **4. Skills and competency**

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

## **5. Integrating RI into investment decisions**

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments. The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>	<b>Other</b>
----------------------	---------------	-------------------	--------------



Climate change Resource & energy management	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Bribery & corruption
---	--	--	--

### 5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection. ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

### 5.2. Private Markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

### 5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking. The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations.

This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

#### 5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement. Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy. The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

#### 5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. Border to Coast will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)<sup>1</sup> recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings which we consider reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review its fund managers in relation to climate change approach and policies.

---

<sup>1</sup> The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.

<https://www.fsb-tcfid.org/publications/finalrecommendations-report/>

- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

## 6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we will become a signatory to the UK Stewardship Code<sup>2</sup> and the UN Principles of Responsible Investment<sup>3</sup>.

### 6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed here xxxxxx. A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of Border to Coast by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings when:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

---

<sup>2</sup> The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

<https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx>

<sup>3</sup> The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with Signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Lending can also be restricted in these circumstances.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depository. During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

## **6.2. Engagement**

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

Border to Coast has several approaches to engaging with investee holdings. Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible. Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and compliment other engagement approaches, an external voting and engagement service provider will be appointed. Engagement will take place with companies in the internally managed portfolios across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact<sup>4</sup> breaches.

---

<sup>4</sup>UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with the Border to Coast RI policy.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

### **6.3. Litigation**

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

## **7. Communication and reporting**

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

## **8. Training and assistance**

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

## **9. Conflicts of interest**

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

October 2018

**Appendix 2: Draft Border to Coast Corporate Governance & Voting Guidelines  
(tracked changes included)**

# Corporate Governance & Voting Guidelines

**Border to Coast Pensions Partnership**



October 2018

## Document Control

### 1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1 <sup>st</sup> draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.		10 <sup>th</sup> Oct 2018
V0.3	2 <sup>nd</sup> draft reflecting OOG amendments		19 <sup>th</sup> Oct 2018

### 2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	X.X	XX

### 3. Board Approval

Approved By	Version	Date
The Board	X.X	XX

### 4. Key Dates

Event	Date
Effective Date	22/11/2018
Next Review Date	01/08/2019

### 5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver

Border to Coast Joint Committee	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed

## 1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

## 2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.



We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

### **3. Voting Guidelines**

#### **Company Boards**

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

#### **Composition and independence**

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who

have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than ten years will be assessed on a case-by-case basis.

The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

## **Leadership**

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director must be appointed if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

### **Non-executive Directors**

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

### **Diversity**

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

### **Succession planning**

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

## **Directors' availability and attendance**

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

## **Re-election**

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

## **Board evaluation**

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

## **Stakeholder engagement**

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis is key for companies; being a way to discuss governance, strategy, and other significant issues.

## **Directors' remuneration**

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

#### • **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an

appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

#### • **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

#### **Directors' contracts**

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

#### **Corporate reporting**

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies

should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

### **Audit**

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

### **Non-Audit Fees**

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

### **Political donations**

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met political donations will be opposed.

## **Lobbying**

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and where there are differing views on issues.

## **Shareholder rights**

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

### **• Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

### **• Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

### **• Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

### **• Disapplication of Pre-emption Rights**



Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

### **Share Repurchases**

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

### **Memorandum and Articles of Association**

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

### **Mergers and acquisitions**

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

### **Articles of Association and adopting the report and accounts**

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

### **Virtual Shareholder General Meetings**

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation;

however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

### **Shareholder Proposals**

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

### **Investment trusts**

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

October 2018