

# Local Pension Board of the Warwickshire Pension Fund

8 July 2019

## Border to Coast - Pooling Update

### 1.0 Introduction

1.1 This report provides an update on the Border to Coast Pension Partnership (BCPP) pooling for note and comment.

1.2 The following is covered in the report:

- Funds Development - Timetable
- Global Equities Alpha Fund
- Alternative Funds
- Fixed Income Funds
- Joint Committee Member Scheme Representation
- BCPP Budget
- MHCLG Draft Pooling Guidance
- Voting and Stewardship Policy
- Overseas Investment Allocations

### 2.0 Funds Development – Timetable

2.1 The latest BCPP timetable for rolling out new funds is given in Appendix 1.

2.2 The timetable is subject to review, in particular BCPP have advised the launch of the Global Equities Alpha Fund is likely to be delayed until after the summer.

### 3.0 Global Equities Alpha Fund Update

3.1 Design of the global equities fund ahead of launch has been finalised.

3.2 BCPP has also completed selection of the external fund managers. These are:

Investec Value - deep value

Investec Franchise - focus on quality/defensive

Harris Associates	- value
Lindsell Train	- quality/defensive
Loomis Sayles	- quality growth

#### **4.0 Alternative Funds Update**

- 4.1 The final design of the alternatives has been approved by shareholders.
- 4.2 This broadly follows that set out in the December Local Pension Board (LPB) report.
- 4.3 The first alternative sub-fund is private equity that has effectively now launched.
- 4.4 This next alternatives sub-fund launch is infrastructure. This is due to launch shortly.

#### **5.0 Fixed Income Funds Update**

- 5.1 The fixed income products are now in the design phase.
- 5.2 Investment Grade Credit (IGC) is due to be the first fixed income launch. This is an active strategy that invests across investment grade bonds.
- 5.3 The BCPP IGC sub-fund targets value added from credit selection.
- 5.4 The BCPP IGC sub-fund is due to launch in Q4 2019.

#### **6.0 BCPP Strategic Business Plan and Budget 2019/20**

- 6.1 A noted at the March 2019 LPB meeting, BCPP has presented its Strategic Business Plan and Budget 2019/20 to partner funds.
- 6.2 A shareholder resolution has now approved the Strategic Plan and Budget 2019/20.

#### **7.0 Joint Committee Scheme Member Representative**

- 7.1 At the last Board meeting in March it was noted that the BCPP Joint Committee was making arrangements for the election of a scheme member observer and substitute from amongst the scheme member representatives on the twelve partner funds Local Pension Boards.
- 7.2 The Board was informed verbally at the March meeting that there had been five nominations from which Nicholas Wirz, Tyne & Wear Pension Fund, was

elected as scheme member observer and Deirdre Burnet, Cumbria Pension Fund, was elected as substitute.

## **8.0 MHCLG Draft Pooling Guidance**

- 8.1 As noted at the last Board meeting, the Ministry of Housing, Communities and Local Government (MHCLG) issued a draft of its proposed pooling guidance for comment by authorities and pool companies.
- 8.2 All 12 Authorities in the pool as well as the BCPP JC and BCPP submitted a response to the survey.
- 8.3 WCC's response generally welcomed the draft guidance but highlighted a number of areas where more consideration would be of benefit.

## **9.0 Voting and Stewardship Policy**

- 9.1 During the latter part of 2018, the Fund transitioned its active UK equities to BCPP. These assets were invested in the BCPP UK Equity Alpha Fund.
- 9.2 More of the Warwickshire Pension Fund (WPF) assets are likely to be transitioned over to BCPP in the coming months and years.
- 9.3 Currently, BCPP applies its own Stewardship and Voting Guidelines plus the associated compliance statement to any transitioned assets.
- 9.4 BCPP declares its voting activity on its website and to Partner Funds on a quarterly basis.
- 9.5 It is desirable to have consistency in relation to voting and stewardship between the WPF and BCPP. Therefore, it is proposed that the WPF should look to broadly align its voting and stewardship guidelines with that of BCPP.
- 9.6 The Board is therefore asked to note and comment on the BCPP Voting and Stewardship Policy and associated compliance statement (see Appendix 1 and Appendix 2).

## **10.0 Overseas Investment Allocations**

- 10.1 Under Item 2 of the Minutes of the last meeting, the Board enquired, via the PFISC, which overseas markets the Fund is invested in and how much is being invested overseas? An update will be provided to the board on the day.

## **11.0 Financial Implications**

- 11.1 None for this Board

## Background papers

1. None.

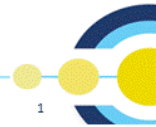
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The report was not circulated to members prior to publication:

## Appendix 1

# Timelines for potential investment

Area	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
UK Equities	Specify	Build	Launch									
UK Equities Alpha		Specify	Build	Launch								
Overseas Developed Equities	Specify	Build	Launch				Consultation					
Global Equities Alpha			Specify		Build	Launch		Consultation				
Emerging Markets Equities	Specify	Build	Build	Launch								
Gilts & Index-Linked Gilts												
Overseas Government Bonds				Specify	Specify	Build	Launch					
Inv Grade Corporate Bonds												
Multi-Asset Credit				Specify		Build		Launch				
Diversified Growth						Specify	Build	Launch				
Alternatives: Private Equity			Specify	Build	Launch				Consider legacy			
Alternatives: Infrastructure				Specify	Build	Launch			Consider legacy			
Alternatives: Private Credit					Specify	Build		Launch				
Alternatives: Other							Specify	Build	Launch			
Property				Specify		Build Phase 1			Build Phase 2			Launch



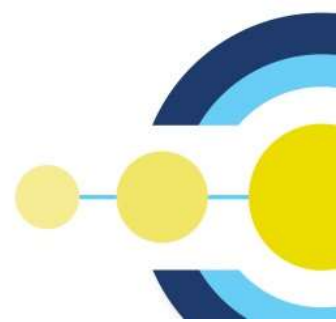
Note: This is subject to change.

# Corporate Governance & Voting Guidelines

**Border to Coast Pensions Partnership**



November 2018



## 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.

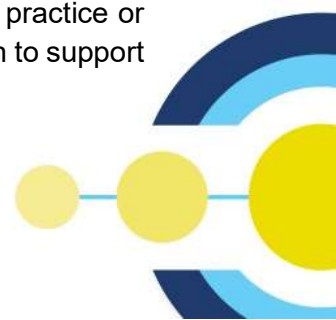
Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs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

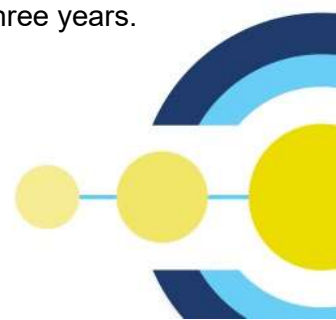
The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need 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.

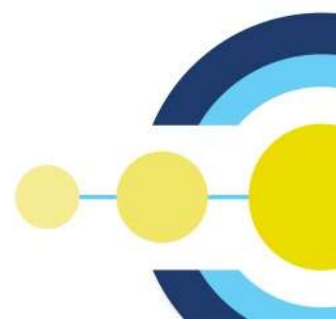
However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice 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.

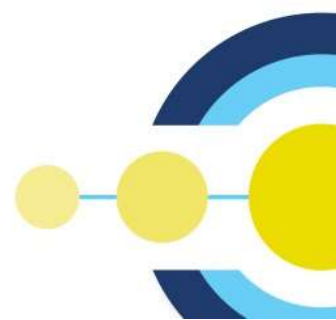
With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full 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.

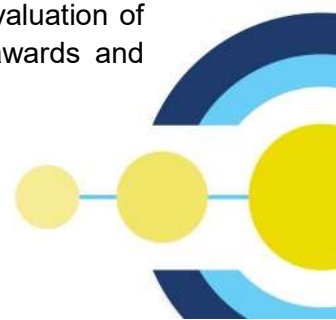
It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards 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.

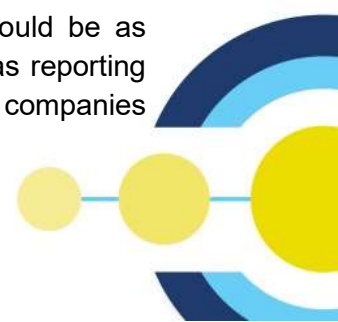
The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

## 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.

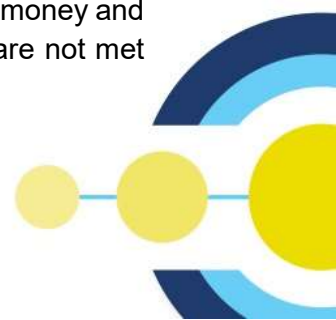
FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where 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**

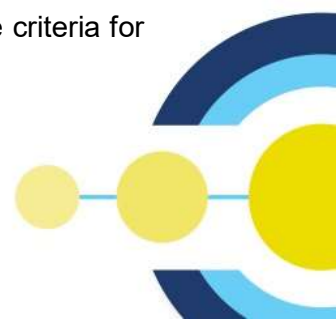
Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **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**

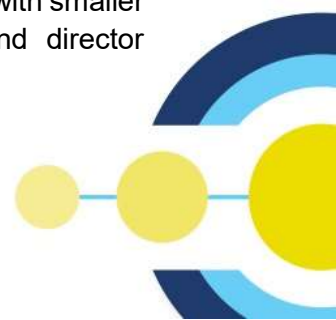
Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some 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.

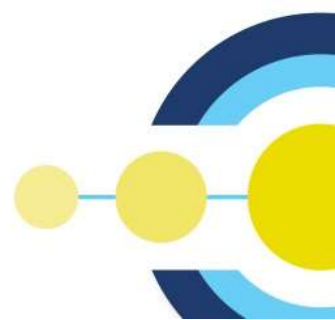
## **Investment trusts**

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.





# UK Stewardship Code Compliance Statement

## Border to Coast Pensions Partnership



January 2019

# UK Stewardship Code Compliance Statement

## Introduction

Border to Coast Pensions Partnership Ltd is an FCA alternative investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds) based on their strategic asset allocation through internally and externally managed sub-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.

Responsible Investment (RI) is central to Border to Coast's corporate and investment philosophy; this includes holding companies to account on environmental, social and governance (ESG) issues and practising active ownership across all asset classes. The Border to Coast Responsible Investment policy, which can be found on the [website](#), details the approach to RI and stewardship which we will follow in fulfilling our fiduciary responsibility to Partner Funds. The Corporate Governance & Voting Guidelines (Voting Guidelines), also accessible on the [website](#), set out the approach and principles to voting. The aim is to manage risk and generate sustainable, long-term returns for our Partner Funds.

This document describes the approach Border to Coast takes to stewardship, referenced against the seven Principles of the UK Stewardship Code.

## Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

As a long-term investor, Border to Coast takes its stewardship responsibilities seriously believing that effective active ownership leads to superior long-term returns. As a shareowner, we have a responsibility for effective stewardship of the companies we invest in, whether directly or indirectly through mandates with fund managers. We practice active ownership through voting, monitoring companies, engagement and ultimately if deemed necessary litigation.

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. ESG issues will be integrated into investment decision making across all asset classes. We use specialist data providers to monitor ESG risks across internally and externally managed portfolios which compliment financial, quantitative and risk analysis. For internally managed portfolios ESG data is used when conducting pre-buy analysis and for ongoing monitoring of portfolio companies.

We expect our external managers to adhere to the Border to Coast RI policy and be able to demonstrate the integration of ESG into investment processes. RI is a component of the external manager selection process and incorporated into the RfP and due diligence. External managers' portfolios are monitored for ESG risk with issues addressed at regular meetings.

As responsible investors we believe that the best way to influence companies is through engagement; therefore, the approach taken will be to influence companies by constructive

shareholder engagement and the use of voting rights. Border to Coast has several strands to its engagement strategy. This includes direct engagement by members of the Investment and Research Teams of Border to Coast, with collaborative engagements conducted by Robeco, the third-party Voting and Engagement Partner, on our behalf.

Border to Coast will vote across global equity holdings managed internally and externally, where possible. Voting will be administered by a specialist third-party provider according to the Border to Coast Voting Guidelines.

Responsible Investment which includes stewardship, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate our commitment to stewardship. As an organisation we are committed to transparency and disclosure; therefore, our Responsible Investment Policy and Corporate Governance & Voting Guidelines, which explain in detail our approach to Stewardship, can be viewed on the Border to Coast website at (web link)

## **Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed**

Border to Coast has a Conflicts of Interest policy which will be published as part of our Publication Scheme and is available on request. We work actively to continually achieve obligations under the FCA's Principles for Business, PRIN. Whilst all the Principles must be embodied in all of Border to Coast's work, the Principles of direct application to this policy are Principle 6 and Principle 8. The policy is reviewed and updated annually. All staff will receive compulsory and regular training to assist them in identifying, preventing or managing Conflicts of Interest. Personal account dealing and employees outside business positions and interests are addressed by the policy. Conflicts are included on the agenda at Board meetings.

We consider the following in managing Conflict of Interest:

- All reasonable steps must be taken to identify Conflicts of Interest that may result in a material risk of damage to a customer.
- Once identified, conflicts will be escalated to the Chief Risk Officer who will, as appropriate, refer the conflict to the Chief Executive Officer (and Board Chair or the Remuneration and Nomination Committee Chair in respect of Directors' interests).
- Once identified, Conflicts of Interest must be managed in a way that ensures the customers' interests are not adversely affected.
- Border to Coast has implemented internal controls and undertakes awareness raising and monitoring to assist in complying with the approved mitigation or relevant regulatory requirements.

Procedures and policies are in place which cover personal dealing and managing inside information. Information barriers are in operation to ensure that price sensitive information is not passed between different areas of the business. Market soundings can only be received by authorised persons who must then notify Compliance. A register is kept to record inside information when received by any member of Border to Coast staff. A restriction on dealing is then enforced for the investment manager and personal dealing by the member of staff until the information is made public.

### **Principle 3: Institutional investors should monitor their investee companies**

Border to Coast has both internally and externally managed sub-funds. Internally managed funds are monitored by the respective portfolio managers with input from the Head of Equities, the Head of RI and the Research Team. To assist investment staff, research from a number of different providers is utilised; this includes research from sell-side brokers, economists, ESG data providers, proxy voting advisers and industry journals. Additionally, the opinions of NGOs, regulators, other industry bodies and stakeholders will be taken into consideration to give a more informed view.

External managers will be expected to monitor investments managed on behalf of Border to Coast. However, on an ongoing basis, the Border to Coast team will actively monitor market conditions and trends that may impact the performance of the Sub-Funds. Furthermore, on a regular basis the team will compile and review a series of quantitative metrics for all the underlying investment managers and their respective holdings. Managers will be challenged and held to account regarding investee companies, including on ESG issues. Finally, the team will complete a full due diligence for each portfolio manager to assess the strength, consistency, performance, and operations of the underlying funds, on a periodic basis. The due diligence will act as a full reassessment of each manager and will cover similar activities conducted in the original selection process.

All equity portfolios are screened for ESG risk with results used to drive deeper analysis and shape engagement.

Regular meetings are held with companies, other investors, stakeholders and industry professionals to monitor companies' business development and ESG risks and opportunities. Detailed records are kept of engagement meetings, voting and other ESG and stewardship related activities.

Border to Coast has an engagement strategy which consists of internal and external portfolio managers meeting with investee companies, collaborative engagement through investor RI initiatives, and engagements conducted by our Voting and Engagement Partner. We recognise we will not always be able to conduct effective engagement alone which is why collaboration is a strong feature of our engagement strategy. Issues which Border to Coast has engaged on include:

- Diversity
- Climate change
- Independence of non-executive directors
- Human Capital Management

Border to Coast is an active owner of its investee companies and will therefore use its voting rights carefully to influence corporate behaviour.

### **Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities**

As a shareowner Border to Coast practises active ownership which involves engaging with companies and exercising voting rights to influence corporate behaviour, enhancing and protecting long-term returns. When an issue has been identified the first step will be to reach out directly to the company. This approach may vary depending upon where the company is based. Ideally, we will contact the Senior Independent Director or Chair. If this is not possible

we will communicate through the Investor Relations Team or company broker. We believe the key to successful engagement is in building and maintaining relationships with investee companies and realise that some engagement may take place over an extended period.

We are mindful that it may be more effective for us to participate in collaborative engagement. This may be achieved through our membership of LAPFF, RI initiatives, collaboration with other interested investors, and via the Voting and Engagement Partner.

Border to Coast is focussing on a number of broad responsible investment themes which include high standards of corporate governance, transparency and disclosure and diversity. Issues that we have engaged collaboratively on include gender diversity, climate change, data privacy and corporate governance in Japan.

Border to Coast may also vote against management at AGMs, attend AGMs to ask questions and will consider co-filing shareholder resolutions. Where appropriate we will participate in shareholder litigation.

### **Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate**

We acknowledge that in many cases joint engagement with other investors has the potential to effect greater change than acting alone. We will therefore seek to work collaboratively with other like-minded investors and bodies to maximise Border to Coast's influence on behalf of Partner Funds, where we consider this to be the most effective means of engagement. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups; each opportunity is assessed on a case by case basis. Border to Coast has appointed a third-party Voting and Engagement Partner, Robeco, who engage on our behalf across the internally managed global equity holdings. When carrying out engagement, Robeco do so collectively on behalf of their clients, therefore increasing Border to Coast's influence. This will not preclude Border to Coast engaging with companies alone on specific issues. We also expect external managers to engage with companies on our behalf. We are currently a member or supporter of the following collaborative initiatives:

Local Authority Pension Fund Forum

Workforce Disclosure Initiative

PLSA

Institutional Investor Group on Climate Change

30% Club Investor Group

Climate Action 100+

The contact for any potential collaborative engagement with Border to Coast is Jane Firth who can be contacted at [jane.firth@bordertocoast.org.uk](mailto:jane.firth@bordertocoast.org.uk)

## **Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity**

To have a greater influence and for operational reasons, it was deemed essential to have a collective voting policy in place at Pool level. This was developed in collaboration with all Partner Funds. Border to Coast has a policy to exercise its voting rights across all global equity holdings for both internally and externally managed sub-funds. Robeco has been appointed as the external Voting and Engagement Partner, to administer voting on our behalf, providing analysis and also advise when required. The Voting Guidelines are principle based and applied on a case by case basis. The Head of RI & Voting has the ability to override decisions following discussions with internal and external managers. If agreement cannot be reached the decision is referred to the Chief Investment Officer. The Voting Guidelines are reviewed and revised annually to reflect changes in industry best practice. Border to Coast respond to requests from companies on voting rationale and will, where possible, engage with companies prior to voting against a resolution. Summary voting activity is reported and disclosed on the website on a quarterly basis showing votes against and any votes cast contrary to policy with rationale. All votes are disclosed annually.

Border to Coast operates stock lending. Procedures are in place to restrict lending and stock will be recalled ahead of meetings when certain criteria detailed in the RI policy are met.

## **Principle 7: Institutional investors should report periodically on their stewardship and voting activities**

Border to Coast communicates its approach to Stewardship through its RI policy and Corporate Governance & Voting Guidelines; these documents are reviewed and updated annually to reflect changes in best practice.

A quarterly Stewardship publication is produced and published on the [website](#). This includes detail on voting, engagement and market developments. The Active Ownership report prepared by the Voting and Engagement Partner contains voting highlights and coverage of engagement conducted on our behalf, available on the [website](#). Border to Coast's Annual Report includes a section on Responsible Investment including a summary of annual voting activity. A separate standalone annual RI report is also produced. Voting activity is reported on a quarterly basis with annual disclosure of all votes on the [website](#). All the aforementioned documents are shared with the Partner Funds to fulfil our stewardship obligations. Additionally, Border to Coast reports to Partner Funds on ESG in-line with their requirements and provides briefing papers on specific topics, themes and issues.

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