

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

4 MARCH 2022

BORDER TO COAST RESPONSIBLE INVESTMENT POLICIES

Report of the Treasurer

1. PURPOSE OF REPORT

- 1.1. To present the responsible investment policies of Border to Coast and ask Members for their comments.

2. INTRODUCTION

- 2.1. Border to Coast first published a Responsible Investment Policy and a Corporate Governance & Voting Guidelines document in 2018, shortly after the company commenced investment operations.
- 2.2. These documents were the crystallisation of extensive discussions between Border to Coast and the eleven partner funds. They set out the Border to Coast approach, and were broadly aligned to the responsible investment policies of each partner fund.
- 2.3. Every year these documents are reviewed to ensure that they reflect best practice, and capture Border to Coast's current view and the views of partner funds. The review process is led by Border to Coast and is carried out in consultation with partner fund officers. This ensures that Border to Coast can present a strong and unified voice when undertaking responsible investment activities such as company engagement and voting shares.
- 2.4. The latest review was completed in November 2021. This included an evaluation by Robeco, Border to Coast's adviser on responsible investment issues, using the International Corporate Governance Network Global Governance Principles, the UK Stewardship Code and the UN Principles of Responsible Investment as benchmarks.
- 2.5. Due to the increasing importance of climate change risk, a Climate Change Policy was created in 2021, to stand alongside the Responsible Investment Policy and the Corporate Governance & Voting Guidelines.
- 2.6. The Joint Committee has reviewed these documents, and supported Border to Coast's request that the Pension Fund Committees of partner funds be asked to comment on them.
- 2.7. Comments on these documents will also be useful in the review of the Responsible Investment Policy of the North Yorkshire Pension Fund, which

will take place over the next few months, with the Policy due to be presented at the Committee's meeting in July.

3. RESPONSIBLE INVESTMENT POLICY

3.1. The Responsible Investment Policy is attached as **Appendix A**. There were no major changes to this document as it reflects a gradual evolution of thinking. The main changes, with references to the associated paragraphs are:

- additional wording on diversity and diversity of thought (1.0, Introduction)
- a new section on property, in advance of the launch of the global property fund, expected in late 2022 (5.4, Real Estate)
- significant editing of the section on climate change, which is now covered in more detail in the Climate Change Policy (5.6, Climate Change)
- additional wording on the potential for exclusions relating to companies involved in tar sands or coal, where business models are considered incompatible with the transition to a low carbon economy (5.6, Climate Change)
- a comment on the new Stewardship Code (6.0, Stewardship)
- a new section on key engagement themes, to describe the areas where efforts will be focussed in 2022 (6.2.1, Engagement Themes)

3.2. The engagement theme areas are low carbon transition, waste and water management, social inclusion through labour management and diversity of thought.

3.3. The low carbon transition engagement theme will focus on high emitting sectors where companies will need to adapt or fundamentally change their business models. This will also cover banks identified as key to financing the transition to a low carbon economy.

3.4. The waste and water management theme will focus on companies with packaging waste which is a huge environmental issue and is coming under increasing regulation, and those with high exposure to water intensive operations.

3.5. The social inclusion through labour management theme will target companies with labour intensive operations and with supply chain labour management risk, which have been put under added pressure by the pandemic.

3.6. The diversity of thought theme will focus on companies with boards which could be enhanced by broader perspectives, to improve decision making, resilience and long-term sustainability.

5. CORPORATE GOVERNANCE & VOTING GUIDELINES

5.1. The Corporate Governance & Voting Guidelines is attached as **Appendix B**. As above, there were no major changes, but the main changes were:

- strengthening the approach to ethnic diversity at FTSE 100 companies (pages 4 and 5, Diversity)
- separation of treatment of long-term incentive schemes for executives and other employees (page 8, Long Term Incentives)
- a clarification in relation to executive pensions (page 8, Directors Contracts)
- additional wording in relation to the stance on climate change lobbying (page 10, Lobbying)
- a clarification on shareholder proposals and their alignment with shareholders best interests (page 12, Shareholder Proposals)
- strengthening the stance on climate change to include Climate Action 100+ net zero benchmark indicators (page 12, Climate Change)

6. CLIMATE CHANGE POLICY

6.1. The Climate Change Policy is attached as **Appendix C**. It is based on the internationally recognised Net Zero Investment Framework, which provides a set of recommended actions, metrics and methodologies to help organisations become carbon neutral by 2050 or sooner.

6.2. The Policy breaks the approach to addressing this risk into four pillars:

- identification and assessment – integrating climate risks into the wider risk management framework and having robust processes to identify these risks and assess them over time
- investment strategy – fully embedding climate change risk in the investment decision making process, including the approach to investment opportunities
- engagement and advocacy – influencing companies to adapt their climate change strategies so that they are well prepared for the transition to a low carbon economy
- disclosure and reporting – transparency on climate change issues and activities

- 6.3. The Policy sets the high-level approach. Border to Coast expect to set out their implementation plan towards the end of 2022, including determining the metrics and milestones they will use to assess progress.

7. RECOMMENDATIONS

- 7.1. Members are asked to comment on Border to Coast's Responsible Investment Policy, Corporate Governance & Voting Guidelines document and Climate Change Policy.

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County Hall
23 February 2022