NORTH YORKSHIRE COUNCIL

PENSION FUND COMMITTEE

30 JUNE 2023

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. A Climate Change Policy was created in 2021.

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 closely 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. The Joint Committee also reviews the documents.

2.4. The latest review was completed in December 2022. 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. Some partner funds (Bedfordshire, Durham, East Riding and Teesside) have decided to adopt Border to Coast's policies as their own. This is because a high proportion of their assets are now managed by Border to Coast, and through the review process described above their own policies were very closely aligned to Border to Coast's policies. The North Yorkshire Pension Board's view was to recommend the PFC considers this.

2.6. As this is the first time the majority of Members on the Committee will have reviewed Border to Coast's policies in detail, views are sought on this possible change in approach rather than a specific recommendation being made at this time.

2.7. Although all of the Fund's investment managers have declared a target of becoming carbon neutral by 2050, which is in line with the Government's stated objective, NYPF has not explicitly made a declaration. Adoption of Border to Coast's responsible investment policies would change that.

2.8. There will be the opportunity to discuss the approach to responsible investment with Border to Coast at the workshop on 30 June 2023, shortly before the Committee meeting.

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:

- highlighting expectations of companies with regard to human rights; to support the social engagement theme Border to Coast has joined an initiative on human rights led by the UN PRI (United Nations Principles for Responsible Investment) (5.0, integrating RI into investment decisions)

- additional requirements for private markets managers to report on RI policies and data against and key performance indicators (5.2, private markets)

- updated text on the transition to a low carbon economy, and noting just transition issues (5.6, climate change)

- insertion of a new section on exclusions, covering thermal coal, oil sands and cluster munitions (6.2.3 exclusions)

3.2. When considering any exclusions, Border to Coast conducts analysis of the associated material financial risk of a company's business operations and whether they have concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour.

3.3. As part of this year's annual RI policies review process the approach has been revisited. Revenue thresholds for thermal coal and oil sands have been reviewed with analysis conducted across equity and fixed income funds, associated benchmarks and the MSCI Universe to identify potential companies that managers may also invest in off benchmark.

3.4. To demonstrate the commitment to Net Zero and provide a clear signal of long-term intentions to reducing exposure to the most carbon intensive fossil fuels in investment portfolios, the revenue threshold has been decreased to >70% (from >90%) for investments in public markets, with a new lower threshold of 25% for private markets to reflect the long-term nature of these investments. This still reflects the risk criteria used to determine the original exclusions in last year's policy.

3.5. Controversial weapons were highlighted as an area to consider for exclusions last year but due to a lack of data and ability to screen portfolios effectively this was deferred. As additional screening tools are now available the analysis of cluster munition companies has been conducted across portfolios, associated benchmarks and the MSCI Universe.

3.6. Following this, the exclusion policy has been extended to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions.

3.7. As Border to Coast supports a just transition and recognises that not all countries are at the same stage in their decarbonisation journey, they will assess the implications of the thermal coal and oil sand exclusions and may make exceptions if they consider this to be appropriate.

3.8. The engagement themes (section 6.2.1) are areas of focus deemed to be the most material to the investments. They highlight the priority areas for engagement and collaboration. They were established in 2022 and will be reviewed in 2024. They are low carbon transition, waste and water management, social inclusion through labour management and diversity of thought.

3.9. 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.

3.10. 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.

3.11. 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.

3.12. 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:

- insertion of a new section on human rights, setting out the expectations of companies and voting intentions in certain circumstances (page 12)

- revision and expansion of the section on climate change, describing the objective of investee companies being carbon neutral by 2050 or sooner, action to be taken if companies are not addressing climate change risk sufficiently robustly, and acknowledging just transition issues (page 12)

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. As above, there were no major changes, but the main changes were:

- a new paragraph on just transition has been added (2.2, why climate change is important to us)

- the addition of a chart showing the reporting and monitoring timeline for implementing the net zero by 2050 or sooner plan (2.4, roadmap)

- inclusion of information on the Net Zero Framework and Net Zero Asset Manager initiative to demonstrate the commitment to the target (3.1, our ambition – net zero)

- describing the "three lines of defence" model in relation to climate change risk (4.1, how we identify climate-related risks)

- noting the use of scenario analysis to understand the potential risks and opportunities in relation to climate change (4.2, how we assess climate-related risks and opportunities)

- describing the exclusion criteria for certain thermal coal and oil sands companies in the context of a policy of engagement over divestment (5.1, our approach to investing)

- noting the launch of the Climate Opportunities fund, and the development of net zero targets in relation to the other asset classes currently in scope (5.2, acting within different asset classes)

- noting the monitoring of carbon metrics against targets for externally managed investments and the work undertaken to understand changes over time; this will for example include having the managers explain the rationale for investing in carbon heavy companies (5.3, working with external managers)

- noting the use of votes in relation to companies in high emitting sectors, where they are considered not to be taking a sufficiently robust approach to addressing climate change risk (6.1, our approach to engagement)

6.2. Border to Coast has published a Net Zero Implementation Plan to support their goal of becoming carbon neutral by 2050 or sooner, which is available on their website.

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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NYCC
County Hall
14 June 2023