

Corporate Governance and Responsible Investment Policy

Introduction

1. This document describes the Fund's policy on Corporate Governance and Responsible Investment (RI). RI is an approach to managing assets that sees investors include environmental, social and governance (ESG) factors in their decisions about what to invest in, and in the role they play as asset owners and creditors.
2. RI aims to combine better risk management with improved portfolio returns, and to reflect investor values in an investment strategy. It complements traditional financial analysis and portfolio construction techniques.
3. The Fund is one of twelve owners of Border to Coast Pension Partnership Limited (Border to Coast), which over time will increasingly manage the Fund's investments. The Fund has contributed to the development of arrangements at Border to Coast, including its Responsible Investment Policy and Corporate Governance and Voting guidelines document, both of which are available at www.bordertocoast.org.uk. The Fund's Corporate Governance and Responsible Investment Policy has been developed in light of these documents.

Approach

4. The Committee's fiduciary duty is to act in the best interests of the Fund's beneficiaries. This requires recognition that ESG issues can positively and negatively impact on the Fund's financial performance.
5. ESG issues therefore need to be taken into account in the funding and investment decision making processes, and in the funding and investment strategies.
6. A long term investment horizon, and well governed sustainable assets are expected to deliver long term sustainable returns.
7. All of the Fund's investments are managed by external investment managers, who therefore make the detailed decisions about which companies to invest in.
8. This policy document is provided to the managers, who are required to consider its principles and to report on how they have taken ESG into account.
9. For the purpose of this policy, Border to Coast will be classified as an external investment manager.

10. The process through which the Fund directly appoints a manager includes an assessment of each candidate's approach to RI. The same is true when Border to Coast appoints an underlying manager.

Development and Application of Manager Policies

11. The Fund's investment managers are required to prepare and maintain policies on corporate governance, responsible investment and on the use of voting rights.
12. The Fund reviews each policy and agrees with the manager how it is to be applied on its behalf.
13. With regard to Border to Coast there is a similar approach, except that all twelve partner funds contribute to the development of the manager's policy and the approach to voting. This means that there is a much closer alignment between the two approaches.
14. Border to Coast's [RI policies and approach to voting and engagement](#) clearly articulate the commitment of the company and each fund to be responsible investors. A significant benefit from the scale and resourcing arising from pooling investments is the improved implementation of responsible investment and stewardship.
15. The policies towards UK quoted companies must take account of the principles contained in the UK Corporate Governance Code and the UK Stewardship Code that are issued by the Financial Reporting Council.
16. Managers should use their best efforts to apply the principles of the UK Stewardship Code to overseas holdings. Other national or international standards must also be taken into account.
17. The policies towards unquoted companies must be consistent with the approach adopted for quoted companies, to the extent that this is practicable.
18. Managers must continue to develop their policies and report changes to the Fund.

Responsible Investment Issues

19. Investment managers who actively manage investments are required to have consideration of ESG issues integrated into their investment processes, be cognisant of the Fund's Responsible Investment Policy, and to act appropriately where such issues may have a financial impact on investments.
20. A proportion of the Fund's assets are invested on a passive basis. The passive manager is not required to take account of ESG issues in the selection, retention

and realisation of investments. However the manager is required to consider them in its responsible investment policy and engage where appropriate.

21. Alternatives to these passive funds are emerging in financial markets, which overweight or underweight holdings based on either companies' climate impact scores or wider ESG impact scores. Consideration is being given to these funds as potential replacements for or enhancements to the traditional market capitalisation weighted funds.

Voting Rights

22. Voting rights are assets that need managing with the same duty of care as other investment assets. The effective use of these rights is essential to protect the interests of the Fund's employers and beneficiaries.
23. It is important that voting is carried out in an informed manner. For this reason, it is believed that the Fund's investment managers are best placed to undertake it.
24. Managers are required to vote the Fund's shares wherever it is practical to do so.
25. Voting rights must be exercised in a manner that establishes a consistent approach to the issues, in order that company directors fully understand the managers' views and intentions.
26. Where an issue has arisen through engagement, and a manager has been unable to reach a satisfactory outcome through active dialogue, an abstention or vote against a company's position may be required. The manager should inform the company in advance of their intention, with reasons.

Direction by the Fund

27. Whilst managers are required to adhere to the Fund's approach to RI and voting, the Fund retains the right to direct them in respect of any issue. This includes assets managed indirectly, by Border to Coast's investment managers.
28. Managers must have policies in place to address conflicts of interest. The Fund is to be consulted with in the event that the policies do not adequately facilitate resolution of conflicts.
29. Managers must seek direction from the Fund when the Fund has informed them that it is involved in a class action against a company.
30. Managers are required to use reasonable endeavours to consider whether, in their opinion, any issue could become controversial for the Fund or its stakeholders. Where this is the case, the issue should be referred to the Fund for discussion, and

possibly direction. This applies to engagement as well as voting. Managers will need to exercise discretion as to what may fall into this category. Examples are:

- Where a manager intends to abstain or vote against company directors on a major issue
- Matters affecting the local area

Investment Managers Review and Reporting Arrangements

31. Managers' policies are to be reviewed on a regular basis.

32. Managers must provide quarterly reports that include:

- Descriptions of how RI issues are integrated into the investment processes and the materiality of such issues in portfolio performance
- Summaries of engagement activity outcomes during the review period
- Details of investments that are considered to have high RI related risks
- Voting records for the review period

33. The voting records are to be analysed between UK and Global, showing:

- The proportions and numbers of votes cast
- Summaries and explanations of instances where:
 - Voting rights were exercised in a manner that was inconsistent with a policy
 - Voting rights were exercised against company management
 - Managers abstained from voting
 - Voting rights were not exercised

Collaborative Engagement

34. The Fund participates in collaborative engagement that has been instigated by its managers or, for example, through its membership of the Local Authority Pension Fund Forum (LAPFF), or with the Cross Pool Group.

35. Border to Coast works with an external engagement and proxy voting advisor, Robeco, who votes at shareholder meetings and engages with senior management

of investee companies, holding them to account on responsible investment issues. Border to Coast is managing assets on behalf of twelve local government funds, which provides a useful approach to collective engagement.

36. Border to Coast is partnered with a number of organisations including LAPFF on a range of issues, Climate Action 100+, and the 30% Club which promotes board and senior management diversity.

Participation in Class Actions

37. The Fund participates in class actions in order to safeguard its assets.
38. The decision on participation is governed by a protocol that has been approved by the Pensions Committee.

Stock Lending

39. The Fund has a stock lending programme in place with its custodian, and may also participate in programmes arranged by certain of its managers.
40. Stock is to be recalled from loan where the Fund's voting rights are required to be exercised on contentious issues.

Fund Review and Reporting Arrangements

41. The Fund reviews this policy annually, or more frequently if required.
42. The Annual Report and Accounts contains information on corporate governance and responsible investment and an analysis of the voting record for the year.

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