

Public Document Pack



PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

Venue: County Hall, Northallerton

Date: Wednesday 21 November 2018

Time: 11.30 am

Membership:

Chair:-

Cllr Doug McMurdo Bedfordshire Pension Fund

Vice Chair

Cllr Tim Evans Surrey Pension Fund

Membership:-

Cllr Mel Worth	Cumbria Pension Fund
Cllr Mark Davinson	Durham Pension Fund
Cllr John Holtby	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Jeff Watson	Northumberland Pension Fund
	North Yorkshire Pension Fund
Cllr Mick Stowe	South Yorkshire Pension Fund
Cllr Steve Bloundele	Teesside Pension Fund
Cllr Eileen Leask	Tyne & Wear Pension Fund
Cllr Bob Stevens	Warwickshire Pension Fund

Terms of Reference of the BCPP Joint Committee

1. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.
2. The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

2.1 Phase 2 – Post Establishment and Commencement of Operations

- 2.1.1 To facilitate the adoption by the Authorities of relevant contracts and policies.
- 2.1.2 To consider requests for the creation of additional ACS sub-funds (or new collective investment vehicles) and to make recommendations to the BCPP Board as to the creation of additional sub-funds (or new collective investment vehicles).
- 2.1.3 To consider from time to time the range of sub-funds offered and to make recommendations as to the winding up and transfer of sub-funds to the BCPP Board.
- 2.1.4 To review and comment on the draft application form for each additional individual ACS sub-fund on behalf of the Authorities prior to the Financial Conduct approval (or the draft contractual documents for any new collective investment vehicle).
- 2.1.5 To formulate and propose any common voting policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.6 To formulate and propose any common ESG/RI policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.7 To formulate and propose any common conflicts policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.8 To agree on behalf of the Authorities high level transition plans on behalf of the Authorities for approval by the Authorities for the transfer of BCPP assets.
- 2.1.9 To oversee performance of the BCPP Pool as a whole and of individual sub-funds by receiving reports from the BCPP Board and taking advice from the Officer Operations Group on those reports along with any external investment advice that it deems necessary.
- 2.1.10 To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

AGENDA

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Minutes of the BCPP Joint Committee Tuesday 10 July 2018 - County Hall, Northallerton

Present

Members

Councillor John Weighell (Chair)
Councillor Steve Bloundele, Councillor Mark Davinson,
Councillor Sue Ellis, Councillor Tim Evans, Councillor John
Holtby, Councillor Eileen Leask, Councillor Doug McMurdo,
Councillor Bob Stevens, Councillor Eddie Strengiel, Councillor
Jeff Watson and Councillor Mel Worth

BCPP Ltd

Representatives Rachel Elwell, Chris Hitchen, Fiona Miller and John Harrison

Fund Officers

Amanda Alderson, Ian Bainbridge, Clare Gorman, David
Hayward, Neil Mason, Nick Orton, Jo Ray, Gill Richards, Peter
George, George Graham and Michael Nicolaou

Statutory Officer Representative(s)

Julian Neilson and Andy Watkins

Tanya Castell and Norah Burns (from BCPP Ltd)

Apologies for absence were received from

Paul Campbell

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

Apologies were noted as above.

2 MINUTES OF THE MEETING HELD ON 13TH MARCH 2018

RESOLVED: That the minutes of the meeting held on 13 March 2108 be agreed as a true record.

3 CONDUCT OF ELECTIONS FOR CHAIR AND VICE-CHAIR OF JOINT COMMITTEE AND NOMINEES FOR DIRECTORSHIP OF BORDER TO COAST PENSIONS PARTNERSHIP - DAVID HAYWARD

The Committee considered a report which set out the procedures to be followed in selecting a Chair and Vice-Chair of the Committee and the nomination of two candidates for approval by the Board of the Company and subsequently its shareholders.

It was proposed that the elections would take place immediately following the close of the meeting and in the following order.

- Election of candidates for Non-Executive Director roles
- Election of Chair of Joint Committee
- Election of Vice-Chair of Joint Committee

Elections were proposed in the above order because successful candidates for the role of Non-Executive Directors would have to stand down from the Joint Committee and therefore would not be eligible to stand for the positions of Chair and Vice-Chair of the Joint Committee.

With regard to the ballot for the Non-Executive Director roles, it was agreed that Committee Members would vote for the two roles on one ballot paper, with the right to vote for two candidates and with the person getting the largest number of votes being appointed to the two-year post and the second highest to the one-year post. There would be a further ballot in the event of a tie.

RESOLVED: That:

- i) The elections would take place in the order and at the time proposed in the report.
- ii) That the procedure for elections should be as set out in the report, subject to the agreement above.

4 GOVERNANCE CHARTER - RACHEL ELWELL

A report was presented to introduce the Border to Coast Governance Charter for the Committee's consideration.

The Charter had been jointly developed by Border to Coast and Partner Fund officers and set out the roles and responsibilities across the Pool.

Cllr McMurdo commented that he fully supported the document but that some of the language lacked clarity, especially around the use of 'partner fund', 'shareholder' and 'administering authority'.

R Elwood would re-visit the wording with assistance from D Hayward and I Bainbridge.

Cllr Ellis questioned whether the guiding principles were true to what was originally agreed.

R Elwell replied that they were a precis of the original principles, but would look at again to ensure accuracy.

RESOLVED:

- i) That the Committee note the report, delegate making the requested changes to officers to be approved by the Chair and Vice-Chair.
- ii) Approve the publication of the Governance Charter in due course.

5 JOINT COMMITTEE MEMBERSHIP - IAN BAINBRIDGE

A report was submitted which had been produced in light of the Scheme Advisory Board's issue of reviewed guidance.

The review had concluded that the Scheme Advisory Board would expect that employers and member representatives were involved by Scheme Managers in assisting with the assurance of transparent reporting from pools and ensuring the effective implementation of strategies by pools. Such involvement should include the consideration of provision of direct representation on oversight structures.

Members were informed that the guidance was not mandatory. The Joint Committee had the option of not offering employers or scheme members representation on the Joint Committee. If this was the case it was considered appropriate to adopt the "explain" approach and that clear reasons be set out why this was not considered appropriate.

The Committee noted that four of the eight pools already had or were intending to have scheme member representation on their oversight Committees. None had scheme employer representatives other than the administering authorities.

There then followed a lengthy discussion with a variety of opinions being proffered.

Cllr Evans commented that he did not see what this would bring to the Committee, Councillors were also employer and/or member representatives.

Cllr Ellis thought that a scheme member sitting as a participating observer would demonstrate openness and transparency. The Scheme Advisory Board was also recommending this and the Committee would come under scrutiny if it did not comply.

The Committee agreed that there should not be an employer representative observer post created on the Committee. It was noted that there was no significant demand from other employers for this and each of the administering authorities were already scheme employers.

Members also debated whether a scheme member representative could also be a Trades Union representative. It was decided that the scheme representative could be a Trades Union representative as long as they were a member of the Scheme.

A discussion was also held on a potential process for appointing scheme member representative(s). The general consensus was that this should be sourced from the Local Pension Boards at the Border to Coast administering authorities.

RESOLVED:

- i) That the Committee would not co-opt employer representative(s) onto the Joint Committee. The exact wording setting out the reasons for this decision would be brought back to the Joint Committee in order to meet the “comply or explain” approach.
- ii) That the Committee agreed to participating observer (non-voting) scheme member(s) being co-opted onto the Joint Committee subject to a further paper being brought to the next meeting detailing the process to be adopted and the terms of the appointment(s).
- iii) Any scheme member representative appointed should be a member of one of the funds participating in Border to Coast.
- iv) The term of appointments(s) should be aligned to the Council’s municipal year.
- v) Substitute(s) should be allowed.
- vi) If there was more than one scheme member representative, each representative should come from a different Border to Coast administering authority.

6 BORDER TO COAST PERFORMANCE MEASURES - RACHEL ELWELL

R Elwell presented a report to enable the Committee to consider the Border to Coast Performance Measures. The report had been compiled in consultation with officers and s151 officers.

The “Border to Coast Performance Measures Discussion Slide Pack” included a reminder of the principles and objectives set by Shareholders together with a potential framework for how Border to Coast might make a difference to investment outcomes for LGPs Funds.

The metrics were intended to give an overall pool view rather than an individual Partner Fund View.

Members noted that there could be a difference in the metrics during transition and in steady state. In particular, risk adjusted long-term performance measures were ultimately the most important but it would take time to develop a long-term track record. The short-term focus would be more on the development of capability to enable Partner Funds to implement their strategic asset allocation via the pool.

Following feedback from the Joint Committee, officers from Border to Coast and Partner Funds would be working to develop detailed metrics and associated actions for discussion at future Joint Committee and Board meetings

RESOLVED: That the report be noted.

7 REVISED CONFLICTS OF INTEREST POLICY - RACHEL ELWELL

R Elwell Presented a revised Conflicts of Interest Policy which set out how the Board and Company would identify and manage any actual, potential or perceived conflicts of interest.

The next step was to share the Policy with shareholders for approval (as this was a matter reserved to shareholders under the shareholder agreement); this would require 75% of shareholders to grant approval in order to be passed.

A possible practical approach to the day-to-day management of conflicts that may arise after appointment had been discussed with Partner Funds. A proposal had been made to authorise a panel of three statutory officers to provide sign-off outside of the annual review process.

RESOLVED: That the Committee note the revised Conflicts of Interest Policy.

8 FEEDBACK ON NATIONAL WORKING GROUPS - JO RAY

J Ray presented a report which summarised highlights from the national working groups attended since the last meeting of the Committee.

RESOLVED: That the report be noted.

9 PROPOSED FUTURE JOINT COMMITTEE MEETING DATES - CLARE GORMAN

A report was considered which detailed proposed future meeting dates. These were:

- Wednesday 21 November 2018;
- Tuesday 19 February 2019;
- Tuesday 4 June 2019;
- Wednesday 20 November 2019; and
- Tuesday 18 February 2020.

It was pointed out that the February dates could clash with half-term and/or budget setting meetings. C Gorman would look for suitable dates in early March. It was noted that venues were still to be confirmed.

As some dates were far into the future, Members were requested to forward any comments to C Gorman as time went on.

RESOLVED: That the proposed future Joint Committee meeting dates were noted, subject to a change of the February 2019 and 2020 dates to more suitable dates in March in each respective year.

10 **BORDER TO COAST PROJECT UPDATE - RACHEL ELWELL AND FIONA MILLER**

The Committee considered the latest Project and Implementation Budget Update. The report included:

- Update on costs versus budget;
- Significant advances, including launch of the first sub-funds;
- Development of a Data Room to help Partner Funds evidence compliance with “necessary conditions”;
- Recruitment;
- Implementation of a Responsible Investment Policy;
- Progress with client reporting; and
- A positive first meeting with national officials from Unison.

RESOLVED: That the Committee noted the progress to date which covered project implementation progress, associated risks identified and the budget outturn predicted.

11 **BORDER TO COAST TRANSITION PLANNING 2018-2020 - RACHEL ELWELL**

A report was submitted to support discussion about the way in which Partner Funds transition into the pool over the next two years.

The Committee was reminded that the asset allocation template showing 38 sub-funds was drafted on the basis of the Partner Funds’ strategic asset allocations (SAAs) as at March 2016. Since then, for a number of reasons, Partner Fund SAAs were starting to change and were expected to continue to change during the transition period.

The Committee noted it would be helpful if Partner Funds share with Border to Coast at an early stage any significant changes to SAAs.

Members recognised the importance of all Partner Funds conferring on their SAAs and further recognised that compromises would have to be made. Great emphasis needed to be placed on relationships and communication both within the company and between the funds.

RESOLVED: That the report be noted.

12 **BORDER TO COAST ACS UK LISTED EQUITY ALPHA FUND - RACHEL ELWELL**

J Harrison presented a report which gave details of the launch of Border to Coast’s first externally managed ACS sub-fund, the Border to Coast UK Listed Equity Alpha Fund, which was planned for October 2018.

The Committee noted that a similar design and launch process was being followed as for the internally managed sub-funds due to launch in July 2018. A Working party of nominated Partner Fund pensions officers together with Border to Coast

officers and advisors had been considering the design of the sub-fund, including the ACS Appendix that would be required prior to launch.

The proposed addition to Appendix 1 of the Border to Coast ACS Prospectus and the timetable for the launch of the UK Listed Equity Alpha sub-fund were attached as appendices to the report.

RESOLVED: That the report and its appendices were noted.

13 BORDER TO COAST ALTERNATIVES CAPABILITY BUILD - RACHEL ELWELL

A report was submitted to inform Members of developments in the Border to Coast Capability Build.

Work had progressed on the development of a suitable structure that would enable Border to Coast to access alternative investments at scale on behalf of Partner Funds.

J Harrison thanked M Lyon for expediting this.

RESOLVED: That:

- i) The planned timeline for the launch of Alternatives be noted.
- ii) The proposed bringing forward of £150,000 of the 219/20 budget be supported, but noted that this was up to each of the Partner Funds as Shareholders to agree to this.

14 MATTERS ARISING FROM BCPP BOARD MEETINGS ON 26TH MARCH, 12TH APRIL AND 25TH JUNE 2018 - CHRIS HITCHEN

C Hitchen informed Members that that the Board had been very active in recent months with full meetings in April and May and a telephone meeting in June; the next meeting would be that afternoon. The meetings had mainly concerned matters related to “going live”.

15 STANDING ITEM - UPDATE ON EMERGING MATTERS - RACHEL ELWELL, FIONA MILLER AND IAN BAINBRIDGE

None.

16 RESULTS OF ELECTIONS HELD POST-JOINT COMMITTEE 10 JULY 2018

Immediately following the conclusion of the Joint Committee of the Border to Coast Pensions Partnership, elections were held to select candidates for two roles as Non-Executive Directors of the Company and for the Chair and Vice-Chair of the Joint Committee for 2018/2019.

The results of the elections were as follows:-

Non-Executive Directors:

Candidate receiving most votes - Councillor Sue Ellis

Candidate receiving next highest total - Councillor John Weighell

The two candidates have been put to the board of Border to Coast who have subsequently approved their appointment subject to completion of FCA approval process and ratification by shareholder resolution.

Note: In order to promote continuity on the Board it had been determined that appointments of Non-Executive Directors from Partner Funds would be for a two year term save for the first appointees where one Director will serve for only one year (thus allowing the annual selection of a single Director hereafter). It was agreed that Councillor Sue Ellis should serve an initial two year term and Councillor John Weighell a one year term.

Chair of Joint Committee

Candidate receiving the most votes - Councillor Doug McMurdo

Vice-Chair of Joint Committee

Elected unopposed - Councillor Tim Evans

CHAIR



BCPP Joint Committee

Date of Meeting: 21st November 2018

Report Title: Arrangements for Appointing Scheme Member Representatives to the Joint Committee

Report Sponsor: Officer Operations Group Member – George Graham

1 Executive Summary:

- 1.1 At its last meeting the Joint Committee resolved as follows in relation to a report on the membership of the Committee.
- That the Committee would not co-opt employer representative(s) onto the Joint Committee. The exact wording setting out the reasons for this decision would be brought back to the Joint Committee in order to meet the “comply or explain” approach.
 - That the Committee agreed to participating observer (non-voting) scheme member(s) being co-opted onto the Joint Committee subject to a further paper being brought to the next meeting detailing the process to be adopted and the terms of the appointment(s).
 - Any scheme member representative appointed should be a member of one of the funds participating in Border to Coast.
 - The term of appointments(s) should be aligned to the Council’s municipal year.
 - Substitute(s) should be allowed.
 - If there was more than one scheme member representative, each representative should come from a different Border to Coast administering authority.
- 1.2 This report presents the Committee with proposals in relation to the practical implementation of this proposal, seeks a decision in relation to the number of scheme member representatives and in line with the “comply or explain” approach adopted by the Scheme Advisory Board sets out reasoning for not including representation of other scheme employers within the Joint Committee.

2 Recommendations

- 2.1 The Joint Committee is asked to:
- 2.2 Agree the number of scheme member representatives (together with standing substitute(s)) that should be appointed from amongst the scheme member representatives on partner funds' local pension boards.
- 2.3 Agree that in the event of more nominations than places, selection be carried out by ballot on the basis of one authority one vote for each post.
- 2.4 Agree that, if more than one representative is to be appointed the representative selected with the greatest level of support should initially be appointed for approximately three years and the second placed for two, and thereafter for a term of two years, linked to the municipal year.
- 2.5 Agree to the role description for scheme member representative(s) set out at Appendix A.
- 2.6 Agree the statement of reasons for not appointing other employer representative(s) at para 5.3.

3 Arrangements for Appointing Scheme Member Representative(s)

- 3.1 The preference of the Joint Committee as expressed in the resolution agreed at its meeting in July is to draw any scheme member representative(s) from amongst the relevant members of the 12 Local Pension Boards of the funds within the Partnership. Across the 12 Pension Boards there is currently provision for 41 scheme member representatives. Some of these representatives are nominated by the Trades Unions and others are volunteers appointed by the scheme manager. The number of scheme member representatives within each Board ranges from 2 (Lincolnshire and Northumberland) to 6 (South Yorkshire, although likely to have reduced to 5 by the time the Joint Committee meets). Thus there is a significant pool of potential candidates for the role(s) each of whom will have had to maintain an appropriate level of knowledge and skills as part of their role on the Board.
- 3.2 It has been confirmed to the Committee that it has the power under the Inter Authority Agreement to invite additional attendees to the meetings of the Joint Committee on the understanding that they can attend and participate but not vote.
- 3.3 Conferring any voting rights would be contrary to the one authority one vote principle which underpins the make up of the Committee. This attending/non-voting role would allow full access to all papers and deliberations of the Committee (when compared to the rights of the public to attend parts of the meeting only).
- 3.4 Any Scheme Member Representative(s) would be bound by the requirements of confidentiality which are associated with "restricted" agenda items and as part of their induction/training would have it explained to them that such papers were for their use in relation to the Committee only and should not be otherwise shared.

- 3.5 There are two principal options in terms of how any representative(s) could be selected:
- The role of providing the scheme member representative(s) could be rotated between the 12 Boards. This could also perhaps place a significant burden on some of the smaller boards, and might lead to a situation where representation for scheme members ended up being provided by “unwilling” volunteers
 - Local Pension Boards could be asked to nominate a willing individual from amongst their scheme member representatives. Should there be more candidates than places then a ballot would be required which in line with the overall principles agreed for Border to Coast governance would be carried out on a “one authority one vote” basis, with the votes being cast by the scheme member representatives on each local pension board.
- 3.5 Of these two options the second seems most likely to result in a situation where the representative(s) could be said in some way to be able to represent the totality of members across the 12 funds, and is officers’ preferred approach.
- 3.6 The Committee has already determined that provision should be made for standing alternate member(s) (substitutes) in the event of unavoidable absence. This would replicate the provision allowing partner funds to nominate a substitute member as necessary.
- 3.7 From the discussion at the last meeting the consensus view was that to be qualified to be appointed as a representative an individual should be an actual member of the scheme through one of the funds within Border to Coast, although no distinctions were made between active, deferred and retired members.
- 3.8 It will also be necessary to specify a term of office and (potentially) a term limit for any representative(s). In order to give any representative(s) the opportunity to properly establish themselves in the role it is recommended that a term of office of 2 years with a term limit of 2 terms is agreed. This will ensure that representation does not become “stale” through the passage of time. As it has been determined that the scheme member representative(s), should be a scheme member and come from one of the funds Local Pension Boards, should that representative cease to be a scheme member or no longer be on a Local Pension Board, then they will no longer be eligible to be on the Joint Committee and a new scheme member representative should be sought, at the earliest available opportunity.
- 3.9 If more than one representative is agreed officers would propose that in order to allow the role to become established the representative receiving the most support in the initial selection process should serve for a longer period.
- 3.10 The Committee has already determined that the terms of office should be aligned to the municipal year. However, it is believed that for the first appointments an attempt should be made to get the scheme member representatives in place for the next Joint Committee meeting in March 2019. The alignment to the municipal year should take place for the next round of elections.

3.11 It would also be appropriate to set out some expectations for this role in the same way as expectations are set out for members carrying out the roles of Chair and Vice Chair of the Joint Committee. A suggested role description is at Appendix A. In particular this sets out the expectation that the representative(s) will provide a report back to the 12 Boards following each meeting of the Joint Committee. This ensures that there is a proper feedback loop. Whether there is a desire to go beyond this is properly a matter for the Boards and representative(s) themselves. The role description at Appendix A notes the limits on disclosure of information considered in the private part of a meeting, which will need to apply to scheme member representative(s).

4 Numbers of Representative(s)

4.1 At its last meeting the Joint Committee deferred a decision on the number of scheme member representatives. The Scheme Advisory Board's statement makes no reference to the number of representatives that might form part of any oversight structure for a pool. Taking into account the bounds of practicality and the balance of the Joint Committee between voting and non voting members the following appear to be viable options:

- i. One representative, which would run the risk of allegations of tokenism given that the funds within Border to Coast collectively have around 1m members.
- ii. Two representatives, which would mirror the number of shareholder non executive directors.
- iii. Three representatives, which would mirror the arrangement with the three trade unions within the Scheme Advisory Board.

4.2 While it would be theoretically possible to go beyond three representatives, officers' view is that this would begin to change the balance of membership of the Committee and it would also likely be relatively difficult to supply a greater number from within the pool of local pension board members.

4.3 A decision on the number of representative(s) is a matter for the Committee and members views are requested.

5 Scheme Employer Representation

5.1 The resolution agreed at the last meeting in ruling out scheme employer representation asked officers to frame a statement of reasons for doing so in line with the "comply or explain" approach recommended by the Scheme Advisory Board.

5.2 In essence the views expressed by members in the debate on this issue summarised the reasoning around two principal points:

- There is no demand for this;

- The range of other employers is so great that it would be impossible to arrive at a sensible number of representatives that could cover such a range of different employers. In addition it was felt that the broad interests of all employers are aligned in terms of stable and affordable contributions and these interests are already represented.

5.3 Consequently the following statement of reasons is proposed:

The Border to Coast Pensions Partnership Joint Committee has decided not to include a non-voting observer representing scheme employers who are not administering authorities within its membership. There are two reasons for this. Firstly, these employers are represented in the governance structures of the 12 Administering Authorities and there have, in contrast to scheme members, been no demands for such representation through this route. Secondly this is an incredibly diverse range of employers ranging from large unitary councils to small charities with one or two members and it is therefore considered that to provide effective representation of such a wide spectrum of organisations which participate in the Local Government Pension Scheme on different bases would be impractical. On balance it is considered that the common interest of this group of employers is in the achievement through an effectively implemented investment strategy of stable and affordable contribution rates, and that that interest coincides with a major part of the interest of administering authorities as employers who are represented on the Joint Committee.

5.4 The statement of reasons will be included in appropriate documentation such as the BCPP Governance Charter and published with relevant governance documentation on the Joint Committee website.

6 Conclusion

6.1 The Joint Committee is asked to approve the recommendations in section 2.

7 Author:

George Graham, ggraham@sypa.org.uk

8 Supplementary Reading:

Border to Coast Joint Committee – 10th July 2018 Agenda Item 5 – Joint Committee Membership.

Draft Role Profile

Border to Coast Pensions Partnership Joint Committee – Scheme Member Representative

Core Purpose of the Role

The core purpose of the role is two-fold:

1. To ensure that the members of the Border to Coast Joint Committee are made aware of the views of scheme members on the issues which they are considering.
2. To ensure that information on the decisions made by and the debates carried out within the Joint Committee are fed back to scheme members through their representatives on the local pension boards of the partner funds.

Term of Office and Selection

Each scheme member representative will normally be elected for a period of 2 years with a limit of 2 terms.

Selection will be by election from amongst the scheme member representatives on the local pension boards of the partner funds on the basis of one fund one vote exercised by the scheme member representatives on the 12 Local Pension Boards. In the first instance the candidate with the highest number of votes will be accorded a three year term and the second candidate a two year term in order to provide a degree of consistency in representation.

Each Local Pension Board will be able to nominate one candidate from amongst its scheme member representatives to ensure that those elected come from more than one of the partner funds.

Elections will be conducted by exhaustive ballot.

The third and fourth place candidates in any selection process will be appointed as standing substitute members of the Joint Committee.

Eligibility

To be eligible for this role an individual must be a member (active, deferred, or pensioner) of one of the partner funds within the Border to Coast Pensions Partnership. On ceasing to be a member of one of the partner funds, or on ceasing to be a member of one of the partner funds' local pension boards an individual will become ineligible and will cease to hold office.

Commitment

In addition to any commitment to the work of the local pension board of which they are a member a scheme member representative on the Border to Coast Joint Committee will be expected to attend as a minimum meetings of the Joint Committee (4 per year) and the Border to Coast annual conference (2 days per year). Representatives may choose additionally to spend time familiarising themselves with how the Border to Coast operating company runs its affairs.

Individuals undertaking the role will be expected to formally feedback in writing to the local pension boards of the partner funds following each Joint Committee meeting, and to produce an annual report which can be made available to the members of all the participating funds. Any member of a local pension board has a statutory obligation to maintain an appropriate level of knowledge and understanding of the issues with which the Board is dealing. It is expected that in fulfilling this obligation any scheme member representative will have sufficient knowledge and understanding to participate in the work of the Joint Committee.

Conflicts of Interest

A scheme member representative as a member of a local pension board should have completed a register of interests and be familiar with issues where a conflict of interest might arise.

As a member of the Joint Committee a scheme member representative must disclose the fact that they have a conflict of interest in relation to any item where they feel this is the case. The relevant officer will provide advice as to whether the representative may participate in debate, stay in the room and not participate or should leave the meeting for the relevant item. These rules apply equally to councillors.

Confidentiality

The Joint Committee operates under the terms of the Local Government Acts and some items which it discusses are discussed in private, for example where they concern the details of commercial contracts with third parties.

The Scheme Member representative will be present for **all** the Joint Committee's discussions whether in public or in private, and will receive **all** papers and be able to contribute to **all** debates, unless precluded from doing so by a conflict of interest.

As is the case with Councillors the Scheme Member representative will be limited in what they can disclose in relation to items discussed in private when reporting back to stakeholders. Appropriate support and guidance is available from fund officers on these issues. Equally scheme member representative(s) should not engage in widespread consultation for example with members of partner funds' local pension boards, on issues due to be considered in private before meetings.

Expenses

Reasonable travel expenses in association with attendance at meetings of the Joint Committee and attendance at the Border to Coast Annual conference will be re-imbursed from the Joint Committee annual budget. It is considered to be appropriate to cover travel expenses as the Scheme Member representatives will be considered to be acting on behalf of the scheme members from all 12 funds.

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BCPP Joint Committee

Date of Meeting: 21st November 2018

Report Title: Joint Committee Budget

Report Sponsor: Ian Bainbridge, Chair Officer Operations Group

1.0 Recommendation

1.1 The Joint Committee is asked to note that at the current time the forecast expenditure is broadly in line with the budget set in January 2018.

2.0 Joint Committee budget

2.1 At the Joint Committee meeting in January a budget of £30,000 was approved to cover the period from July 2018 to March 2019. Any cost incurred prior to July 2018 was all part of the set up costs of pooling. The forecast budget for the full year for 2019/20 is therefore £40,000.

2.2 The budget is intended to cover costs incurred by the Joint Committee and the partner funds, including the secretarial services to convene and run meetings, and for collective advice and support (internal and external) which may be required from time to time by all partner funds.

2.3 It is also considered reasonable that this budget is used to cover travel costs and expenses for any members or officers who are attending meetings to represent all partner funds. This will include but will not be limited to meetings with MHCLG and Cross Pool meetings. This budget will not be used where members and officers are attending meetings to represent their own funds including Joint Committee meetings and Officer Operations Group Meetings.

2.4 Elsewhere on the agenda is a report on Scheme Members' representation on the Joint Committee. It is proposed that scheme member representatives appointed as observers to the Joint Committee will have their travel expenses covered by the Joint Committee budget as they will be deemed to be representing the scheme members from all twelve funds.

2.5 The Budget was set at £30,000 for nine months based on a basic cost estimate included in a report from Deloitte, obtained in May 2016, as part of the initial cost benefit analysis for the submission to Government. At the current time it is difficult to determine whether this budget is at the appropriate level. This will be monitored both in year and for future years and adjusted accordingly.

2.6 In line with the cost sharing principles these costs will be shared equally between the partner Funds.

3.0 Forecast Expenditure to 31st March 2019

3.1 The following expenditure has either been incurred or is forecast to be incurred before the year end

Secretariat Support to Joint Committee - £1,200

Catering for Joint Committee - £1,200

Room Hire for Joint Committee - £1,000

Legal Advice to the funds re ACS - £4,000

3.2 To the end of October no expenditure has been incurred on travel and expenses for attendance at meetings but some costs will be incurred in the near future. A meeting with the Minister is scheduled for 12th November and there are a number of Cross Pool meetings planned for the end of November. There will also be further meetings before the end of March 2019. At this stage it is difficult to estimate what these costs will be.

3.3 It is proposed that a scheme member representative(s) should be in place by the time of the next Joint Committee in March and this will also incur some expenditure, but this should not be too significant.

3.4 At the time of writing the only other known area of expenditure is legal advice for the creation of legal structures and a review of legal documentation for the alternatives programmes. It is proposed that this work is commissioned on behalf of the twelve funds by South Tyneside Council and the costs charged to this budget head. At the current time it is difficult to provide a firm estimate of the level of cost expected, but this could be in the region of £20,000. The final scope of work will be agreed by the partner funds before it is commissioned.

3.5 Overall therefore, it is believed that the forecast is that expenditure will be broadly in line with the budget.

3.6 It should be noted, however, that there are many unforeseen circumstances that could arise which may lead to other items of expenditure being incurred which could materially change this position.

Report Author:

Ian Bainbridge, ian.bainbridge@southtyneside.gov.uk

Further Information and Background Documents:

N/A



BCPP Joint Committee

Date of Meeting: 21st November 2018

Report Title: Joint Committee Terms of Reference

Report Sponsor: Ian Bainbridge, Chair Officer Operations Group

1.0 Recommendation

1.1 The Joint Committee is recommended to express its views on

- the need to review the role of the Joint Committee
- the timing for undertaking a review
- whether to establish a Governance Working Group
- whether members wish to be involved

2.0 Role of the Joint Committee

2.1 The Inter Authority Agreement (IAA) signed by the administering authorities of the partner funds in June 2017 sets out the arrangements for the Joint Committee and includes the agreed terms of reference.

2.2 The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the Border to Coast pool.

2.3 These terms of reference cover the period to the operational commencement (first phase) as well as (second phase) post establishment and commencement of operations (second phase).

2.4 The terms of reference as set out in the IAA are still considered to be broadly reasonable and provide a good framework as to the remit of the Joint Committee. However, it should be recognised they were set at a time when the approach to pooling was still in its infancy and before the Company and the Joint Committee had been established and had a chance to mature.

2.5 There have also been occasions when the role and remit of the Joint Committee has become confused with the Shareholder role. To an extent this was inevitable in the early stages of establishing Border to Coast. This is possibly more the case where the roles are being filled by the same person.

- 2.6 As pooling develops and the role of the Joint Committee matures, it is reasonable that the role and remit of Joint Committee is revisited and further clarity is sought around the Joint Committee and Shareholder roles.
- 2.7 Any revisions to the role of the Joint Committee will require a Deed of Variation to amend the IAA, which would require unanimous approval of the Partner Funds. Depending on the governance arrangements of individual authorities the agreement to vary the terms of reference may require the approval of full Council for that administering authority, as this is where the initial approval for the IAA to establish the Joint Committee was granted. Adopting any change could be a lengthy process and should not be undertaken lightly.
- 2.8 It is important, therefore, that this exercise does not take place too early which may then result in the need for a further review in a relatively short period of time. It may be appropriate, for example, to wait until Border to Coast has been in operation for at least one year and has been through an annual cycle, or even longer until Border to Coast is considered to be in “steady state”.
- 2.9 When establishing Border to Coast a number of combined member and officer working groups were set up, one of which was the Governance Working Group. Members may consider it appropriate to set up a further group to help facilitate a review of the terms of reference.
- 2.10 Members’ views are requested on the need for such a review, its timing, and also whether and when a Governance Working Group should be established to take this initiative forward. If members wish to be involved, volunteers would be welcome.

Report Author:

Ian Bainbridge, ian.bainbridge@southtyneside.gov.uk

Further Information and Background Documents:

Inter Authority Agreement



BCPP Joint Committee

Date of Meeting: 21st 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.
- 1.5 Following feedback from a number of Partner Funds, we will be looking to set up a working party with support from Partner Fund Officers, Border to Coast personnel, our external partners (Robeco and the external managers) and potentially some consulting support to consider in depth the implications of climate change on our approach to investment. This is a wide-ranging topic that has the potential to impact all aspects of investment (i.e. it is not purely focussed on the fossil fuel industry or carbon footprint). The aim is for this to be ready for consideration ahead of the 2019 RI policy review.

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. It was agreed that there are a number of areas where further research would be helpful ahead of the 2019 annual review, but that some prioritisation

of these was required given the resource availability and the number of other developments that were needed to enable Border to Coast to become an UNPRI signatory. Climate change was identified as a key risk topic and a working party will be established to consider this. Other areas for consideration included diversity (and gender pay gap); transparency and disclosures; the UN's sustainable development goals; and tobacco. The recommendation is that the research focus is on climate change during 2019. We will give consideration to how to agree other topics for future years in due course.

- 4.6 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. Discussions between those invested in the Border to Coast UK Equity, Overseas Developed and Emerging Market Funds regarding the potential to actively tilt in a low carbon direction will be held. This will be supported by the proposed climate change working party. 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.

- 6.2 Other amendments to the policy have been made to reflect global variations in best practice and cover board composition, diversity and remuneration.

- 6.3 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. The development of the narrative regarding engagement is key: for example, at the recent Border to Coast Investment Conference, over 60% of delegates voted for engagement as the right way to effect a change with regards to climate change risk. Engagement (including with Governments to effect changes to policy) is not an overnight fix. We need to be able to set clear goals for the impact of our engagement, not just with the companies in which we invest but via the initiatives that we are collectively supporting.

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
13th November 2018

11 Supporting Documentation

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

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

DRAFT

Responsible Investment Policy

Border to Coast Pensions Partnership



November 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 st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10 th Oct 2018
V0.3	2 nd draft reflecting OOG amendments	CEO	19 th Oct 2018

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19 th Oct 2018

3. Board Approval

Approved By	Version	Date
The Board	0.3	7 th Nov 2018

4. Key Dates

Event	Date
Effective Date	01/01/2019
Next Review Date	01/01/2020

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
Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Joint Committee	Review policy and any material alterations made thereafter	Reviewer
Border to Coast Board	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 BCPP Border to Coast Pensions Partnership will follow in fulfilling its commitment to the partner funds our Partner Funds in the their delegation of responsible investment (RI) and stewardship responsibilities.

1. Introduction

The primary objective of the 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. (BCPP) is to ensure that all funds can meet their pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. 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. BCPP will b

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 BCPP Border to Coast UK Stewardship Code compliance statement. 2. 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, ~~which involves being an~~ includes active owner and ownership, using shareholder voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance, ~~is also an integral part of the process. The incorporation of ESG factors in the investment process is part of the fiduciary duty to beneficiaries of funds. The Law Commission's 2014 report 'The Fiduciary Duties of Investment Intermediaries' states that Trustees should take into account any factors which are financially material to the performance of an investment including ESG factors.~~

3. Governance and Implementation

~~The~~ 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 ~~the~~ our twelve Partner Funds. ~~Implementation and oversight of the policy is by the~~ The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy ~~will be~~ is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It ~~will be~~ is reviewed at least annually or whenever revisions are proposed, and updated as necessary.

4. Skills and competency

BCPPBorder to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and ~~investment~~ 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 ~~these~~ our responsibilities.

5. Integrating RI into investment decisions

BCPPBorder 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 BCPP, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which ~~can~~ 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 ~~managed assets~~ and ~~also within~~ externally managed mandates. Integrationassets. The CIO will be accountable for the integration and implementation ~~will be via the CIO.~~

of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
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.

5.4 Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

BCPPBorder to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. ~~It poses~~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. BCPPBorder 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~~in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)¹ ~~recommendations~~recommendations~~;~~
- Encourage companies to adapt their business strategy in alignment with a low carbon economy~~;~~
- Support climate related resolutions at company meetings ~~where appropriate~~which we consider reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.

¹ 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/>

- Co-file shareholder resolutions at company AGMs ~~where appropriate~~ 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.
- ~~Collaborate~~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 ~~shareowner the BCPP~~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, ~~BCPP~~we will become a signatory to the UK Stewardship Code² and the UN Principles of Responsible Investment³. ~~All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Responsible investment and ESG considerations will be specifically referenced when conducting fund manager due diligence. They will be factored into the selection and appointment process, and included in investment management agreements. Managers will be expected to include ESG issues within their investment decision making process and take into account both financial and "extrafinancial" considerations. Managers will be required to report back to BCPP regarding their RI activities on a regular basis.~~

6.1

6.1. Voting

Voting rights are an asset and ~~BCPP~~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. ~~In order to~~To leverage scale and for practical reasons, ~~BCPP~~Border to Coast has developed a collaborative voting policy to be enacted ~~by BCPP~~ 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 ~~BCPP~~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.

² 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>

³ 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.

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 BCPP Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

BCPP 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. BCPP has created procedures along with its external providers Procedures are in place to enable stock to be recalled prior to a shareholder vote in certain circumstances. This will only occur if the benefits of voting outweigh the benefits of stock lending. Stock will be recalled ahead of meetings, and —lending can also be restricted, when:

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

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 BCPP 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. 6.2-Engagement

The best way to influence companies is through engagement; therefore BCPP, 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 with companies across all markets where possible, as well as with external fund managers 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.

BCPPWe 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 Compact⁴ breaches.

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 our 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.

~~BCPP will seek to work collaboratively with other like-minded investors and bodies in order to maximise its influence, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively collaborating with various other external groups e.g. The Local Authority Pension Fund Forum (LAPFF), other LGPS pools and other investor coalitions.~~

~~BCPP will engage with regulators, public policy makers, and other financial market participants as and when required.~~

6.3. ~~6.3~~-Litigation

Where BCPPBorder to Coast holds securities, which are ~~the~~ subject ~~of~~ individual or class action securities litigation, ~~it~~we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. BCPPWe 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. BCPPWe will work with industry professionals to facilitate this.

7. ~~7~~-Communication and reporting

BCPPBorder 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 BCPP'sour website quarterly;

⁴UN 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.

reporting on engagement and RI activities to the Partner Funds quarterly; and in ~~the~~our annual RI report.

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

8. ~~8.~~ Training and assistance

~~BCPP~~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. ~~9.~~ Conflicts of interest

~~BCPP's Conflicts~~Border to Coast has a suite of Interests policy will be disclosed and applied to identify and manage policies which cover any potential conflicts of interest between itself and the Partner Funds ~~and BCPP~~which are applied to identify and manage any conflicts of interest.

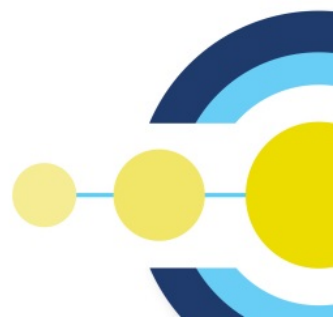
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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership



November 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 st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10 th Oct 2018
V0.3	2 nd draft reflecting OOG amendments	CEO	19 th Oct 2018

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19 th Oct 2018

3. Board Approval

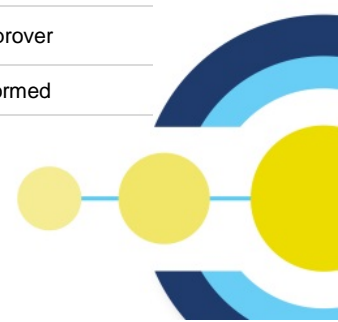
Approved By	Version	Date
The Board	0.3	7 th Nov 2018

4. Key Dates

Event	Date
Effective Date	01/01/2019
Next Review Date	01/01/2020

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
Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Joint Committee	Review policy and any material alterations made thereafter	Reviewer
Border to Coast Board	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 (~~BCPP~~) 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 ~~BCPP~~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~~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. ~~BCPP~~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.

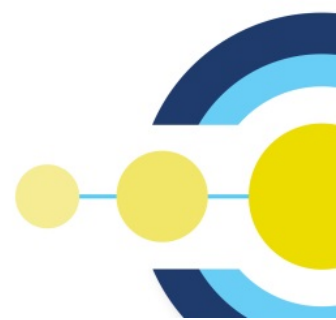
Where a decision has been made not to support a resolution at a company meeting, ~~BCPP~~Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance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

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

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

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

- ~~BCPP~~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.
- ~~BCPP~~We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.



- BCPPWe 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

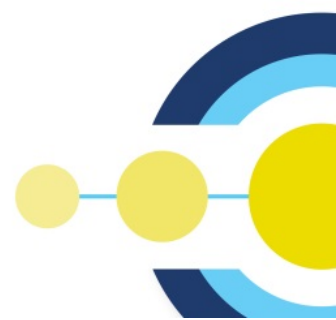
The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge ~~in order~~ to ensure the company can meet its objectives. Boards 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. ~~As they~~ 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.



- Served/Serving on the board for over nine years.
- Has/Having had a material business relationship with the company in the last three years.
- Has/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. In order to 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 ~~consider candidates from all racial and religious backgrounds and look to increase the level of female representation on boards in line with best practice;~~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 also 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

~~BCPP expects~~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.

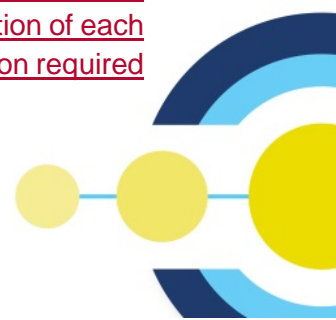
With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full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

~~In order for~~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 ~~in order~~ to appropriately challenge management. ~~In order to~~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.

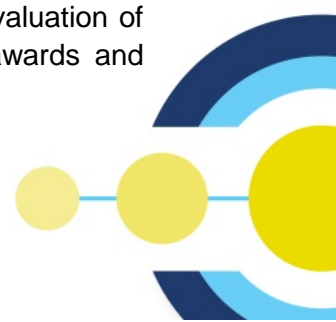
It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards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

~~In order to~~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 performance over the longer-term, 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. BCPP 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. Performance should therefore be measured over a period of restricted stock units are awarded under the plan, the vesting period in line with the company's strategy; this should be at least three years but preferably longer 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.

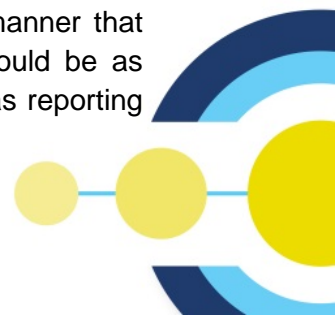
The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

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 will also should not be scrutinised 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. BCPPWe 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. ~~The~~ To ensure that the audit committee can fulfil its fiduciary role, it should consist of 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.

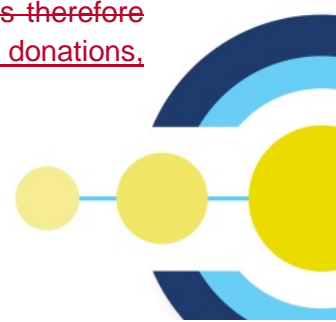
FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where 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. ~~It is therefore prudent to oppose all political donations.~~ 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, BCPPBorder 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. BCPPWe will not support measures or proposals which will dilute or restrict itsour rights.

- **Authority to issue shares**

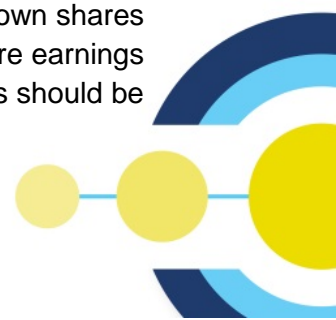
Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

BCPPBorder 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

BCPPBorder 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 BCPPBorder to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

BCPPBorder 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 BCPPBorder to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be ~~occasion~~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, BCPPwe will oppose the changes.

Virtual Shareholder General Meetings

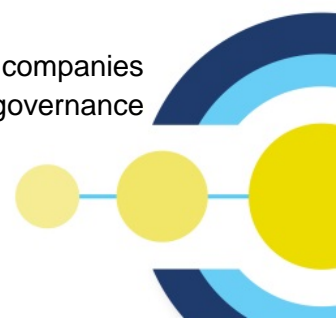
Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some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

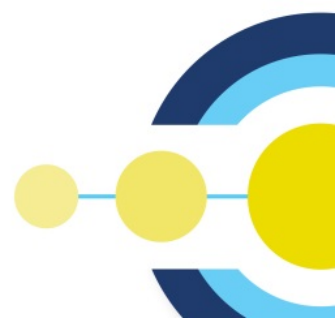
BCPPBorder to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance



guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards ~~and should not necessarily be required to report on such matters as environmental issues.~~ 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.

BCPPWe 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.





BCPP Joint Committee

Date of Meeting: 21st November 2018

Report Title: Feedback on National Working Groups

Report Sponsor: Member of Officer Operation Group – Jo Ray

1.0 Executive Summary:

1.1 Since the last Joint Committee, Officers have attended meetings of the Cross Pool Collaboration Group, the Cross Pool Client Working and the Cross Pool Responsible Investment (RI) Group.

2.0 Recommendations:

2.1 The Joint Committee is asked to note this update report.

3.0 Background:

3.1 The summarised highlights from the national working groups attended since the last meeting of this Member group are shown below:

3.2 *Cross Pool Collaboration Group (last meeting 26th September)*

- LGA (Jeff Houston) updated the group on the following:
 - **CIPFA Pensions Panel** – the annual accounts guidance has been signed off, and will be released in October. There is an opportunity for a volunteer from the pools to sit on the Pensions Panel. Fiona Miller volunteered in the absence of any other offers.
 - **Transparency Code** – a successor to the IDWG is to be created, effective from October. New templates in various asset classes will be published in October and testing will commence. Testing will also take place on the user manual for listed assets template. 82 managers have now signed up to code. Compliance system to check information submitted will be coming into force.

- **Academies** – DfE is considering the proposals made by the SAB working group on funding arrangements for academies. Proposal is for single academies pool in each LGPS fund.
 - **GAD Section 13** – report will be released in the next couple of weeks. Funds that will be receiving a red or amber flag should know about it by now.
 - **Cost Sharing** – announcement of the outcome of the cost control mechanism – employer contributions across unfunded public sector schemes will increase in a range of 6-13%, and there will be a requirement for benefit improvements. Although LGPS rates set by Fund actuaries - cost sharing/cost cap does apply to LGPS, therefore would be seeing similar requirement for improved benefits. SAB cost sharing calculation results will be taken into account in the Treasury cost cap process. SAB Board meeting on 10th October.
 - **Scheme Valuations** – discussions underway to moving to 4-year valuations, as per GAD's recommendation. 2019 valuation will still be going ahead.
- Central Government updated the group on the following:
 - **MHCLG**
 - **Valuation change** – thinking about how to implement and there will be a consultation. MHCLG/LGA met with the actuarial advisers – useful session on the technical aspects. Hope to get out to consultation this financial year.
 - **Progress Report** – template updated to reflect CIPFA guidance, will be last of the 6 monthly updates will then move to annual updates from Pool annual reports. Pools and Funds confirmed that the financial information required in the template will be difficult to complete at this time.
 - **ISS** – updating for pooling - new guidance to be issued. Will be a consultation, but informal.
 - **FOI request** – for last progress reports – question comes from a journalist. All pools to feedback on what needs to be redacted, but if already publicly available versions they can be used. Fee savings will not be released.
 - **Cabinet Office**
 - **Fund Annual Reports** – keen to get some consistency on narrative in Fund annual reports – particularly around the narrative on costs which appear to be going up with pooling whilst supposed to be saving money.
 - **Contract management** – colleagues at Cabinet Office are leading at best practice in contract management, can arrange for contact. Agreed to include on the next Client working group and include pool companies in the invitation for the first section.

- National Frameworks (Nigel Keogh) attended and updated on the following:
 - Work is continuing with GDPR and contractors to ensure consistency.
 - Member Data Services Framework in process of getting contracts sorted and will launch shortly
 - Pensions Admin Software – initial meeting with Funds held, and will launch a survey to inform the next piece of work to do an engagement session with suppliers. Trying to ensure that key providers do engage. They will make sure that there are exit clauses in the contract provisions to assist in the transition when changing provider. Following conversations will make a decision later this year on whether to proceed.
 - Legal Services – 42 expressions of interest so far, including a couple of major city firms. Current framework expires 12th January 2019. Broadened range of investment areas. Will include corporate M&A. All lots will have direct award option.
 - Global Custody – won't be proceeding with a re-let at this time.
 - Founder AGM – 12th November.

3.3 *Cross Pool Infrastructure Group (last meeting 18th September)*

- MHCLG circulated the Autumn progress report, with the infrastructure question largely unchanged.
- Pools updated on latest progress.
- A discussion was had on the appetite for local infrastructure.
- Chairs of Pension Committees are to be invited to a MHCLG and SAB Infrastructure event on 15th November, to be held at the LGA's offices. This will include an introduction by, and the opportunity to ask questions of, the Local Government Minister Rishi Sunak.

3.3 *Cross Pool Responsible Investment Group (last meeting 2nd October)*

- The LGA requested that representatives from this group assist the Fundamentals training being held in October, November and December.
- It was noted that the boycott on disinvestment contrary to UK foreign policy was overturned as DCLG won their appeal to put it back into the Investment Strategy Statement. Parties are considering appealing.

- The DWP consultation on Trustee ESG considerations and statements was discussed and thoughts shared. Views shared included that it was a missed opportunity to align to the LGPS regulations.
- A presentation was received on Auditors and accounting standards and the Kingman review discussed.
- Due diligence and stewardship considerations on infrastructure investments were discussed, following presentations as below:
 - A presentation was given by the GRESB, who are an investor driven organisation assessing the sustainability performance of real asset sector portfolios and assets, covering infrastructure due diligence and stewardship.
 - A presentation was given by Columbia Threadneedle, an asset manager, covering the benefits of an open-ended infrastructure vehicle and how to incorporate sustainability from a managers perspective.
- Each pool updated on recent developments.
- The draft Cross Pool RI Group Terms of Reference were discussed and approved, alongside a proposed forward plan.

3.4 *Cross Pool Tax Group*

No meetings have been held.

3.5 *Cross Pool Client Working Group (last meeting 26th September)*

- Terms for pooling were sent to central Government to assist with definitions.
- The MHCLG progress report was discussed, covering:
 - Who compiled the information and any approval routes.
 - Governance structures – further guidance expected.
 - Reporting – most won't be in a position to report on savings at this time.
 - Benchmarking – how funds and pools want to be benchmarked going forwards.
- Discussion was had on the product development pipelines across pools.

- Transition management was discussed, covering:
 - Whether it is done inside or outside the ACS.
 - Costs sharing - statutory guidance will be amended to clarify the ability to share all transition costs, some limited consultation should be expected.
 - Oversight of transitions and transition advisors.
- Pools provided updates, specifically covering client engagement resourcing.
- Fund resourcing – discussion was had around the time being spent on pooling within the Funds, and the potential impact on governance where not enough time was being committed at the right level.

4.0 Conclusion:

- 4.1 Substantive work and engagement with different agencies continues to be progressed on a range of matters to ensure the LGPS can secure best value and exercise its collaborative influence wherever appropriate.

5.0 Report Author:

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