

# Public Document Pack



**PENSIONS PARTNERSHIP**

**BCPP JOINT COMMITTEE**

## **AGENDA**

**Venue:** Aspire, 2 Infirmary Street, Leeds, LS1 2JP

**Date:** Tuesday 4 June 2019

**Time:** 1.00 pm

### **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 Richard Meredith	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Jeff Watson	Northumberland Pension Fund
Cllr John Weighell	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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*10	<b>Update on Emerging Matters - Rachel Elwell/Fiona Miller and Ian Bainbridge (Exemption Paragraph 3)</b>	Verbal Report
11	<b>Any Other Business</b>	

**Next Meeting – 11<sup>th</sup> September 2019 – Venue to be confirmed**

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## **Minutes of the Border to Coast Joint Committee Monday 11 March 2019 - County Hall, Northallerton**

### **Present**

#### **Members**

Councillor Doug McMurdo (Chair)  
Councillor Steve Bloundele, Councillor Mark Davinson,  
Councillor Tim Evans, Councillor John Holtby, Councillor  
Eileen Leask, Councillor Bob Stevens, Councillor Mick  
Stowe, Councillor Eddie Strengiel, Councillor Helen Swiers,  
Councillor Jeff Watson and Councillor Mel Worth  
  
Nicholas Wirz (Scheme Member Representative)

#### **Border to Coast Ltd Representatives**

Rachel Elwell, Chris Hitchen and Fiona Miller

Councillor Sue Ellis, Shareholder non-executive directors on  
BCPP Ltd's Board of Directors ("Partner Fund nominated  
NEDs")

#### **Fund Officers**

Ian Bainbridge, Peter George, Clare Gorman, George  
Graham, Neil Mason, Julie McCabe, Michael Nicolaou, Nick  
Orton, Jo Ray and Gill Richards

#### **Statutory Officer Representative(s)**

Gary Fielding

#### **Apologies were received from**

Alison Clark and Councillor John Weighell

### **1 RESULT OF THE ELECTION FOR A SCHEME MEMBER OBSERVER AND SUBSTITUTE TO THE JOINT COMMITTEE - GEORGE GRAHAM**

A report was submitted that informed the Committee of the results of the election held to fill the role of Scheme Member Observer on the Joint Committee.

Members noted the election of Nicholas Wirz of Tyne and Wear Pension Fund to the Committee as a Scheme Member Observer and Deirdre Burnet from Cumbria Pension Fund as substitute.

The Chair welcomed Nicholas Wirz to his first meeting of the Joint Committee.

N Wirz thanked the Chair for the welcome and stated that he appreciated the opportunity to bring scheme member opinion to the Committee.

## **2 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST**

Apologies were noted as above. There were no declarations of interest.

## **3 MINUTES OF THE MEETING HELD 21 NOVEMBER 2018**

RESOLVED: That the minutes of the meeting held on 21<sup>st</sup> November 2018 be agreed as a true record.

## **4 ELECTIONS FOR THE ROLE OF CHAIR AND VICE CHAIR OF THE JOINT COMMITTEE AND NOMINEE FOR THE DIRECTORSHIP OF BORDER TO COAST PENSIONS PARTNERSHIP LIMITED ("THE COMPANY") - IAN BAINBRIDGE**

The Committee considered a report which set out the process by which the next meeting of the Joint Committee would select its Chair and Vice-Chair and make a nomination to the Board of Border to Coast for a Non-Executive Director to sit on the Company Board.

The role profiles for the Chair, Vice-Chair and Non-Executive Director were attached as appendices to the report for the Committee's information.

With regard to the vacant position for a Non-Executive Director, the Committee discussed the difficulties caused by the differing attitudes of administering authorities towards conflicts of interest. It was decided to seek further legal advice on the matter.

RESOLVED: That:

- i) Any member wishing to become either Chair or Vice-Chair or to be nominated as a Non-Executive Director of the Company are asked to circulate a short supporting statement to all members of the Joint Committee (through the Secretariat) not less than 14 days before the next meeting of the Joint Committee. For the Non-Executive Director role, members are asked that the supporting statement addresses the key provisions of the Job Description as this would be subsequently used to support the approval process.
- ii) Members would be balloted at the June meeting of the Joint Committee to nominate a candidate to hold office as a Non-Executive Director of Border to Coast for a term of two years, subject to legal advice.
- iii) That the nomination for the position of Non-Executive Director would be determined by exhaustive ballot.
- iv) That an exhaustive ballot would be held to select the Joint Committee Chair for 2019-2020.

- v) That an exhaustive ballot would be held to select the Joint Committee Vice-Chair for 2019-2020.

## **5 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE**

A report was submitted that gave details of the current Joint Committee budgetary position and suggested a budget for 2019-2020.

The Committee was reminded that at its meeting in January 2018 a budget of £30,000 was approved to cover the nine month period from July 2018 to March 2019.

The report detailed expenditure that had been incurred or was forecast to be incurred before the year end.

It was noted that overall, subject to the requirement for additional legal work, the forecast expenditure would be broadly in line with the budget.

It was proposed that the budget for 2019-2020 should be £40,000. This was in line with the budget for the nine month period in 2018/2019.

RESOLVED: That the Committee:

- i) Note the current budget position for 2018/2019.
- ii) Approve a budget of £40,000 for 2019-2020.

## **6 GOVERNANCE ARRANGEMENTS - RACHEL ELWELL AND IAN BAINBRIDGE**

A report was considered that updated the Committee on the outcome of a meeting of the Governance Sub-Group which was held to discuss the roles of the administering authorities as both investors and shareholders of Border to Coast. The Sub-Group also reviewed the Terms of Reference of the Joint Committee.

The Governance Sub-Group reviewed the roles of investors and shareholders as set out in the Governance Charter and how each interacted with Border to Coast. It was agreed that that the roles and interaction as defined in the Charter were a good representation of the position and provided sufficient clarity as to the differences between the roles.

It was proposed that the Partner Fund nominated NEDs should be co-opted onto the Joint Committee as non-voting representatives of Border to Coast.

It was suggested that a regular informal meeting of shareholders be held on the same day as the Joint Committee to discuss Border to Coast company business.

The Terms of Reference of the Joint Committee were also discussed and they were considered to be reasonable and not in need of change for the moment. It was

noted that they would need to be kept under review as arrangements within the Border to Coast pool mature and as guidance from MHCLG develops.

RESOLVED:

- i) That the Partner Fund nominated Non-Executive Directors be co-opted onto the Joint Committee as non-voting members.
- ii) That the Governance Charter, as included at Appendix A to the report, be approved for publication on the Border to Coast website.

## **7 MHCLG - STATUTORY GUIDANCE ON ASSET POOLING - NICK ORTON AND FIONA MILLER**

A report was submitted to enable consideration of a response on behalf of the Joint Committee to the consultation on MHCLG's draft statutory guidance on pooling.

The paper outlined a proposed draft response to the consultation on behalf of the Committee which took into account common elements from draft responses from Partner Funds which had been sighted so far as well as highlighting aspects of the proposed guidance which dealt with the role of the Joint Committee.

The Committee noted that the draft guidance was broadly supportive of how Border to Coast had approached pooling. However there were areas where clarification or tightening of the drafting of the guidance would be requested; these were detailed within the report.

It was felt that there were two particular areas where changes to the guidance should be requested which were:

- Regular review of active and passive management (paragraph 3.6 of the guidance) where the premise on which the guidance was based that passive management delivers better net of fees long-term risk-adjusted returns was disputed; and
- 2019-2091 Annual Report and Accounts (section 8 of the guidance) where it was thought that detailed information on reporting requirements should not be included as it was enough to state the CIPFA guidance should be followed.

RESOLVED:

- i) That a formal response to the consultation should be sent on behalf of the Joint Committee be drafted based on the comments made in section 4 of the report.
- ii) If changes are required the Joint Committee delegates the authority to finalise the response to the Chair and Vice-Chair of the Officer Operations Group in consultation with the Chair and Vice-Chair of the Joint Committee.



## 8 FEEDBACK ON NATIONAL WORKING GROUPS - JO RAY

Jo Ray presented a report which updated the Committee on matters from the meetings of the National Working Groups.

Officers had attended meetings of the Cross Pool Collaboration Group, the Cross Pool Client Working Group and the Cross Pool Responsible Investment Group. There had been no meetings of the Infrastructure Group or the Tax Group.

Members noted that work and engagement with different agencies continued on a range of matters to ensure the LGPS could secure best value and exercise its collaborative influence wherever appropriate. It was, however, becoming more apparent that the value from the National Working Groups was diminishing and they were meeting less frequently as pools became more established and identified their own way forward. Specific issues could be raised in separate papers rather than requiring a dedicated report.

The Committee decided that there was no longer a need to continue with the report and thanked Jo Ray for her work on the report over the years.

RESOLVED:

- i) That the report be noted.
- ii) That there was no longer a need to continue with the report.

Exclusion of the Public and Press

## 9 UPDATE FROM BORDER TO COAST CHAIR

Chris Hitchin, Chair of Border to Coast, gave an update on the work of the Board since the last meeting of the Committee. Including:

- Meetings of the Board, the Audit and Risk Committee and the Remuneration Committee.
- Involvement with the shaping of the sub-funds to ensure they met the needs of the Partner Funds.
- Evaluation of the effectiveness of the Board.
- Skills required for the future.
- Training on FCA certification; and
- The appointment of internal and external auditors.

RESOLVED: That the update be noted.

## 10 CEO REPORT - RACHEL ELWELL

The Committee considered the CEO's report for the period since the last Joint Committee meeting.

Members were informed that the last two months had seen another period of significant interaction with and between Partner Funds. A governance map had been developed for Partner Funds that set out the likely timeline and hence the workload for Pensions officers and Committees during 2019; this was attached as an appendix to the report.

Work was progressing on the property pooling solution. A meeting had been held with three of the funds with direct segregated portfolio's and a detailed data request had been issued to all Partner Funds in early February.

With regard to the Responsible Investment (RI) Policy, confirmation had been received from all Partner Funds that their Committees had agreed the Border to Coast RI Policy for adoption into their own ISS.

R Elwell informed the Committee that Border to Coast was keen to hear feedback on the first review process which would help with the next review process which would take place over the summer. Any feedback should be sent to Jane Firth.

Members noted that all shareholders had formally approved the alternatives structure and Border to Coast officers were now working through the next phase of the implementation plan.

The Committee was informed that job offers had been extended to three graduates to work primarily across the Research and Risk functions.

Mat Dawson had resigned in February; he had accepted a job which enabled him to spend more time at home. R Elwell thanked him for all his work for Border to Coast.

The report contained a summary of transitions and performance. Given the short period covered there was no in depth performance information, this was expected to be developed as the sub-funds reach their one-year anniversary. The Committee was informed that to date performance was broadly in line with expectations.

There was an update on progress across the investment operations and corporate functions and the expected outturn for the Operating Budget based on the third quarter – there was no material change from the position reported at the last Joint Committee meeting.

RESOLVED: That the Committee:

- i) Note the report.
- ii) request that Partner Funds send feedback on the RI review process to Jane Firth.

## 11 BORDER TO COAST TRANSITION PLANNING 2019-2021 - RACHEL ELWELL

Members were reminded that in July 2018 the CEO had presented a paper to the Committee to facilitate a discussion about the process for working collectively and in partnership across the Border to Coast pool to identify the “building blocks” required to support Partner Funds’ strategic asset allocations. This had built on a framework looking at Partner Funds’ objectives, risk management, capacity and costs to propose an approach to prioritising capability build and enabling Partner Funds to participate in sub-fund design prior to launch; a summary of this was included within the report.

After 12 months of experience in working collectively in this way, it was thought it was an opportune time to review the process and understand whether it was working well both as a whole and also for each Partner Fund. Management Information had been developed to allow the Joint Committee and the Board to monitor progress in pooling Partner Fund assets. This was included within the report and as an appendix.

Key observations included:

- For most Partner Funds, initial indications suggested that the envisaged building blocks would meet strategic needs, although this was not the case for all. Discussions were ongoing in several areas and it was noted that Partner Funds may be required to compromise in order to facilitate a solution.
- The proportion of passive investment by Partner Funds would drive the level of assets transitioned, at least whilst the case for pooling of passive assets remained unclear. The terms under which Partner Funds invest passively were last reviewed in 2016; this could be reconsidered once ISS reviews are complete.
- Viability of sub-funds through the economic cycle was an important “red line” to consider in looking at sub-fund design. The evolution and implementation of Partner Funds’ investment strategies could impact this significantly.

Members were informed that in order to manage the strategic capability build, to understand implications for cost sharing and impact on other Partner Funds, Border to Coast was working with Partner Funds to understand planned changes to strategic asset allocation and would welcome the opportunity to contribute to Partner Funds’ thinking about implementation of changes in objectives, risk or liquidity profiles, whilst recognising that ultimately it is each Committee’s responsibility to balance strategic asset allocation with its approach to pooling. One Partner Fund was concerned that the speed of the introduction of new sub-funds was too fast and officers were being put under a lot of pressure. Others felt that the pace was appropriate.

R Elwell offered to provide more Border to Coast support to help ease the situation and was keen to hear further feedback on the specific situation as well as any issues or concerns from other Partner Funds.

RESOLVED: That the report be noted.

## **12 BORDER TO COAST ACS GLOBAL EQUITY ALPHA FUND - RACHEL ELWELL**

A report was considered which provided an update on the launch of Border to Coast's second externally managed sub-fund, the Global Equity Alpha Fund (title subject to FCA approval).

An early draft amendment to the ACS was attached as an appendix for the Committee's information.

Officers were using a similar design and launch process to the approach used for the internally managed and UK Listed Alpha sub-funds launched in 2018. The working party of nominated Partner Fund pensions officers and advisors working with Border to Coast would also consider the draft amendment to the ACS prospectus that would be required for launch.

RESOLVED:

- i) That the progress on the Global Equity Alpha Fund be noted.
- ii) That the Committee delegate review and comment on the draft Prospectus to a working party of Partner Fund Officers under its terms of reference as referenced in paragraph 1.2 of the report.

## **13 BORDER TO COAST ALTERNATIVES CAPABILITY - RACHEL ELWELL**

A report was submitted to update the Committee on the development of Border to Coast's Alternatives capability which had been identified as a priority for Partner Funds to benefit from the expected cost savings and access to investments afforded by Border to Coast investing on their behalf at scale.

The report included:

- An update on the Operating Model including the final model design, the shareholder documentation, the legal documentation and the expected time to launch.
- An overview of the Private Equity and Infrastructure offerings.
- An overview of the investment decision making and governance processes in respect of Alternatives.
- The financial implications of, and risks associated with, the Operating Model.

RESOLVED:

- i) That the Committee note the update on the Operating Model and investment and governance processes.
- ii) That the Committee note the overview of the Private Equity offering.
- iii) That the Committee delegate to Officers the authority to review the contractual documentation required to support the Infrastructure offering.

14 **BORDER TO COAST ACS - FUTURE FIXED INCOME FUND OFFERINGS - RACHEL ELWELL**

A report was considered which gave an update on Border to Coast's Fixed Income fund series launch which was targeted for Q4 2019 to mid-2020.

A similar design and launch process was being followed as for earlier sub-funds but following feedback on the equities process the report reflected potential options for the whole of the fixed income landscape rather than looking at one fund at a time. The report was being shared with the Committee earlier in the process that usual to facilitate discussion about direction of travel and to enable Partner Funds to work collaboratively.

A working party of nominated Partner Fund pensions officers and advisors together with Border to Coast had been considering the design of the Border to Coast ACS Fixed Income offering and at this stage Border to Coast was seeking indications of support for the design from Partner Funds to assess whether there was sufficient scale to launch the funds as envisaged.

Members were informed that at the Officer Operations Group on 21 January, reflecting earlier discussions, the following four fixed income sub-funds were proposed for consideration:

- Index-Linked Bonds
- Developed Market Sovereign Bonds
- Investment Grade Corporate Bonds
- Multi-Asset Credit (MAC)

There was strong Partner Fund interest in Multi-Asset Credit, as a diversifier to public equities, and there was an expectation of increases in the allocation to Investment Grade credit post the strategic asset allocation review.

The formal consultation with Pension Committees would take place during May/June 2019 for Investment Grade Credit and later in 2019 for Index-Linked Bonds and MAC.

RESOLVED: That the Committee note the proposed Fixed Income sub-fund design as set out in the report.

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

None.

CHAIR



## BCPP Joint Committee

**Date of Meeting:** 4<sup>th</sup> June 2019

**Report Title:** Annual Election of Committee Chair and Vice-Chair  
Annual Nomination to Border to Coast Board

**Report Author:** Governance Sub Group Secretary – David Hayward

### 1.0 Executive Summary:

- 1.1 This report sets out the process by which the Joint Committee will select its Chair and Vice Chair and make a nomination to the Board of Border to Coast for a Non-Executive Director to sit on the Company Board.
- 1.2 In the normal course of events the process for these appointments and nominations would take place at this meeting.
- 1.3 However, legal advice is currently being sourced in respect of issues around the Partner Fund nominated representatives taking on the role of a Non-Executive Director in Border to Coast. Consequently it is considered appropriate to delay this process until this advice has been received and considered.
- 1.4 This report explains the current position and sets out proposals for the subsequent selection of office holders.

### 2.0 Recommendation:

- 2.1 That Members consider the report and adopt the following recommendations for the reasons set out in detail in this paper.
  - 2.1.1 That members agree to delay the selection process for the nomination of the Partner Fund Non-Executive Director role and the Chair and Vice Chair of the Joint Committee.
  - 2.1.5 That Members should be balloted in advance of the September meeting of the Joint Committee
    - 2.1.5.1 to nominate a candidate to be considered as a Non-Executive Director of Border to Coast for a term of two years
    - 2.1.5.2 to select Joint Committee Chair for 2019-2020
    - 2.1.5.3 to select Joint Committee Vice-Chair for 2019-2020

### **3.0 Chair and Vice Chair of the Joint Committee:**

- 3.1 The Chair and Vice-Chair roles are elected annually in accordance with the terms of the Inter Authority Agreement. It should be noted that the Inter Authority Agreement (IAA) allows a Chair and Vice Chair to serve for consecutive terms. As both Chair and Vice Chair are in their first terms they are eligible for re-election.
- 3.2 The role of the Chair and Vice Chair is described in the role profile appended to this report as Appendix 1. The Vice Chair is required to shadow the Chair and to Chair any Joint Committee meetings that the Chair is unable to attend.

### **4.0 Partner Fund Nominated Non-Executive Director:**

- 4.1 In 2017/18, the Joint Committee discussed the request from the Border to Coast Chair, Chris Hitchen, for Partner Fund representation on the Border to Coast Board. In particular Chris shared his view that “direct shareholder involvement in the Board would be invaluable, particularly at this critical stage in the company’s development. Unity of purpose and alignment of interest are vital if Border to Coast is to win and retain the confidence of its clients and shareholders, and, even more importantly, build a successful long-term-oriented investing institution. A shareholder voice in the Boardroom would greatly mitigate the risk of the Company setting itself at odds, however unintentionally, with stakeholder concerns, and would greatly assist mutual understanding. Shareholder involvement would also mitigate a concern that the Board as currently structured may not have sufficient numbers to populate the necessary committees whilst minimising conflicts of interest.” (Paper to Joint Committee October 2017).
- 4.2 The Joint Committee subsequently agreed that the nomination for Non-Executive Director will be for a term of two years (as agreed with the Company). At the initial selection it was agreed that one director would be asked to serve for an initial term of two years and another for one year with subsequent appointments being for a two year term. This has the result of requiring the Joint Committee to nominate one candidate in each year. The Committee resolved that no person should serve more than two consecutive terms. Therefore, an election to establish the nominated candidate will take place each year.
- 4.3 A role profile for these Partner Fund nominated Non-Executive Directors is attached as Appendix 2. This has been updated from the version from last year in the light of experience and review by the Border to Coast Board.
- 4.4 Any nomination for the Non-Executive Director role is subject to approval by the Company Board and the FCA. Attached as Appendix 3 is some further details about the process and issues that should be considered before candidates put themselves forward for this role. This appendix also sets out the time commitment and the proposed remuneration.
- 4.5 It is recognised that acting as a director of the Company will be a Disclosable Pecuniary Interest within the meaning of s31 Localism Act 2011. Depending on the circumstances and arrangements at each individual administering authority, it may then prove necessary to refer the matter to the individual authority’s Standards Committee for a dispensation pursuant to s33 of the Localism Act. Ultimately,



however, it is for candidates for the role of partner fund nominated Non-Executive Directors, to satisfy themselves that they are able to carry out such functions in relation to their local pensions committees as they deem desirable.

- 4.6 Legal advice in relation to the pecuniary interest and how a dispensation might be couched is being sought on behalf of the partner funds. It was considered necessary to obtain such advice following the resignation of one of the Partner Fund nominated Non-Executive Directors.
- 4.7 At the time of the Joint Committee meeting in March it was expected that this advice would be available in time for the nomination process for the Partner Fund Nominated Non-Executive Director to be concluded at this meeting of the Joint Committee. However, due to the need ensure that all twelve Partner Funds were comfortable with the questions being asked, coupled with the prioritisation of work on the alternatives investment vehicles has meant that this advice is not yet available.
- 4.8 Once available this will be circulated to the monitoring officers at each administering authority to consider the position so this can be discussed with any potential candidate for the nomination for this role. It is not considered appropriate to progress with the nomination process until this advice is received.

## **5.0 Election Process to be Adopted:**

- 5.1 The normal process would be that the election to the posts of Chair and Vice Chair of the Joint Committee and the nomination for the role of Partner Fund nominated Non-Executive Director should take place at the first Joint Committee meeting following the start of the new municipal year.
- 5.2 However, it has been previously agreed that any member selected as Non-Executive Director should not continue to sit on the Joint Committee in a voting capacity. For this reason it is important that the ballot for the nomination to the Non-Executive Director role should be held first.
- 5.3 Consequently, for the reasons set out above it will not be possible to hold the vote for the nomination of the Partner Fund nominated Non-Executive Director or the election for the Chair and Vice Chair of the Joint Committee at the conclusion of this meeting.
- 5.3 A pragmatic approach is therefore proposed whereby the votes will take place by postal (or equivalent) ballot. It is suggested that the ballots will be undertaken using the Single Transferrable Vote (STV) system, as was used for the scheme member observer position on the Joint Committee.
- 5.4 Previous ballots for these roles have been under the Exhaustive Ballot System, however, it is proposed to amend this approach on this occasion as the STV is considered to be better suited to a postal ballot.
- 5.5 Prior to commencement of the ballot process all members wishing to become either Chair or Vice Chair or to be nominated as a Non-Executive Director of the Company will be asked to circulate a short supporting statement to all members of the Joint Committee (through the Secretariat) not less than 14 days before the proposed ballot date. For the Non-Executive Director role, Members are asked that the supporting

statement addresses the key provisions of the Job Description as this will be subsequently used to support the approval process.

- 5.5 There should be no adverse consequences from the delay in the process as the new Chair and Vice Chair should be in place before the next Joint Committee meeting in September. It will however, be important to progress with the process as soon as possible to allow Border to Coast to progress with the process of getting FCA approval for the nominated candidate for the Non-Executive Director Role.

## **6.0 Conclusion:**

- 6.1 That the Joint Committee should agree the arrangements for conducting the selection process for the Chair and Vice Chair of the Joint Committee and for the nomination of the Partner Fund Non-Executive Director.

### **Report Author:**

David Hayward: David.Hayward@southtyneside.gov.uk

### **Further Information and Background Documents:**

Appendix 1: Role Profiles for Chair and Vice-Chair of the Joint Committee

Appendix 2: Role Profile for Border to Coast Non-Executive Directors

Appendix 3: Border to Coast Process for Partner Fund Nominated Non-Executive Directors

Please Note – These appendices have not changed from those previously reported at the meeting in March.

## Role Profile for Chair and Vice-Chair

### Overall

- Leading the BCPP Joint Committee to enable it to fulfil its purpose.
- To ensure an effective relationship between:
  - the Joint Committee and BCPP Limited
  - the Joint Committee and the partner funds
  - the Joint Committee and the external stakeholders/community
- Acting as a spokesperson and figurehead as appropriate.
- To supervise and support the Chief Executive and Non-exec Chair of BCPP Limited

### Specifically

- Plan and prepare the BCPP Joint Committee meetings with others as appropriate.
- Chair BCPP Joint Committee meetings ensuring:
  - A balance is struck between time-keeping and space for discussions.
  - Business is dealt with and decisions made.
  - Decisions, actions and deliberations are adequately minuted.
  - The implementation of decisions is clearly assigned and monitored.
- Ensure that a successor to the post of Chair is found when the term of office is due to end and the new term begins.

### Experience and Qualities

- A willingness to lead the partnership.
- A strong background/working knowledge of the LGPS.
- Recent experience of serving on an LGPS Pensions Committee.
- A working knowledge of asset strategy and implementation thereof.
- Possesses tact, diplomacy and powers of persuasion.
- Has the relevant skills and experience to run a meeting well.

### Capacity

- The capacity to commit the time that will be required to undertake this role, including any travel that may be required to undertake duties associated with the role to represent BCPP nationally.

### Role of the Chair

#### 1. Chairing the Joint Committee Meeting

The Chair (or in his/her absence, the Vice-Chair) will be the person presiding over BCPP Joint Committee meetings. The Chair of the BCPP Joint Committee does not have a casting vote.

## **2. Election of the Chair**

The Chair will be elected by the Joint Committee in accordance with an agreed procedure annually from among the Joint Committee Members and will receive regular briefings by the Chief Executive and Chair of the BCPP Company on current issues. They will also receive direct support from the Chair of the Officer Operations Group.

## **3. Responsibilities of the Chair**

The Chair will have the following responsibilities:

- 3.1 to uphold and promote the purposes of the terms of reference and the inter authority agreement, and to interpret these when necessary during BCPP Joint Committee meetings;
- 3.2 to preside over meetings of the BCPP Joint Committee so that its business can be carried out efficiently and with regard to the rights of Members and the interests of the Partner Funds and their employers and members;
- 3.3 to ensure that the BCPP Joint Committee is a forum for the debate of matters of concern to Partner Funds and their employers and scheme members
- 3.4 to be the public face of the BCPP Joint Committee and to represent the Partner Funds at wider events as required

### Role Profile for Border to Coast Non-Executive Directors

Role Title: Non-Executive Director	
<p><b>Purpose of the role:</b></p> <p>To fully participate in ensuring the Board exercises effective leadership of and control over Border to Coast. To constructively challenge and contribute to the development of strategy, performance and the management of risk.</p> <p><b>About Border to Coast:</b></p> <p>Border to Coast Pensions Partnership is one of the largest pension pools in the UK. One of eight Local Government pools, Border to Coast oversees the investment of pensions assets. Our customers are at the heart of what we do; delivering long-term sustainable investment outcomes for our Partner Funds. We build long-term partnerships through working collegiately, in a sustainable and transparent way.</p> <p>Border to Coast is an FCA regulated investment company (“Border to Coast Pensions Partnership Ltd”) which manages the assets of its twelve <a href="#">Partner Funds</a> through both internal and external management within a number of investment vehicles, including an Authorised Contractual Scheme.</p> <p>A non-executive director is a member of the board of directors of an organisation, but not a member of the executive management team. They are not employees of the company, instead they have a contract for services. However, they do have the same legal duties, responsibilities and potential liabilities as their executive counterparts.</p>	
<b>Reports to:</b> Chair of the Board	<b>Level:</b> n/a
<b>Function:</b> Board	<b>Team:</b> Board
<b>Direct Reports:</b> 0	<b>SMCR:</b> Certified [SMF/ Certified/ Conduct]
<b>Role line of defence:</b>	n/a
<p><b><u>Role Dimensions</u></b></p> <p><b>Budget Responsibility:</b> n/a</p> <p><b>Number of employees in area of responsibility:</b> 0</p> <p><b>Mandate:</b> Board remit</p> <p><b>Prescribed Responsibilities (SMF):</b> n/a</p> <p><b>Time Commitment:</b> Expected to be two to three days per month, with availability for meetings, induction and training as required</p>	

## Key Accountabilities

### Role Specific Accountabilities

- Support the Chair and Executive Team in instilling the appropriate culture, values and behaviours in the boardroom and beyond
- Provide independent oversight and scrutiny of Border to Coast including:
  - Provide an impartial and independent view of Border to Coast and its operations, removed from the day-to-day running of the business
  - Oversee the performance of the Board and Executive Team in meeting strategic objectives, including monitoring financial controls and risk management systems
- Draw on wider experience, in other organisations, to provide the Board and Border to Coast Executive Team with a breadth of understanding and insight, including:
  - Challenge and contribute to the development of the strategy of Border to Coast
  - Support the development of a suitable succession plan for the Board and CEO
  - Use specialist knowledge to input to decision making processes
- Promote a culture of responsible investment and stewardship throughout the organisation
- Commit to building a full understanding of Border to Coast, especially in those areas of the business with a significant level of risk
- Take time to understand various stakeholder needs and ensure these are addressed at Board level
- Chair Committees of Border to Coast [Independent NEDs only; not Partner Fund NEDs]

## Skills, Knowledge and Experience

### Skills, Knowledge and Qualifications

#### Essential

- Excellent inter-personal and communication skills
- Awareness of Border to Coast customers and their particular needs
- Understanding of LGPS investment requirements

#### Desirable

- Other corporate knowledge – health and safety, ICT strategy and systems, HR, information management and data protection

#### Additional

- Skills, knowledge and qualifications as required dependant on succession planning requirements as per the Board skills matrix

### Experience

#### Essential

- Extensive experience of working as a non-executive director/Local Authority Committee Chair either within a public sector environment or FCA-regulated business
- Excellent understanding of working across multiple stakeholders
- Ability to satisfy fitness and propriety test for Approved Person (and, in future, Senior Manager or Certified Person) status and to continue to satisfy test including DBS check

#### Desirable

- Asset management experience would be beneficial, gained either in the commercial or pension fund sectors
- Familiarity with the FCA Statements of Principle for Approved Person (and, in future, FCA Conduct Rules).

It is important to achieve an appropriate balance of experience amongst the non-executive directors

## Appendix: FCA and Companies Act requirements for Non-Executive Directors

### FCA Requirements

Border to Coast's Directors are responsible for the governance and oversight of the Company in relation to the 11 FCA Principles of Business:

<b>1</b> Integrity	A firm must conduct its business with integrity.
<b>2</b> Skill, care and diligence	A firm must conduct its business with due skill, care and diligence.
<b>3</b> Management and control	A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
<b>4</b> Financial prudence	A firm must maintain adequate financial resources.
<b>5</b> Market conduct	A firm must observe proper standards of market conduct.
<b>6</b> Customers' interests	A firm must pay due regard to the interests of its customers and treat them fairly.
<b>7</b> Communications with clients	A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
<b>8</b> Conflicts of interest	A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
<b>9</b> Customers: relationships of trust	A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.
<b>10</b> Clients' assets	A firm must arrange adequate protection for clients' assets when it is responsible for them.
<b>11</b> Relations with regulators	A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice.

Directors who hold Senior Management Functions or Controlled Functions are also subject to the FCA's individual conduct rules and standards:

- Rule 1: You must act with integrity.
- Rule 2: You must act with due skill, care and diligence.
- Rule 3: You must be open and cooperative with the FCA, the PRA and other regulators.
- Rule 4: You must pay due regard to the interests of customers and treat them fairly.
- Rule 5: You must observe proper standards of market conduct.

### The Companies Act Requirements

A Director should display possession of the knowledge, skill and experience that may reasonably be expected of a person carrying out the role of Director. It codifies the Directors' duties into law:

- To act within powers;
- To promote the success of the Company for the benefit of its shareholders;
- To exercise independent judgment;
- To exercise reasonable care, skill and diligence;
- To avoid conflicts of interest;
- Not to accept benefits from third parties; and
- To declare interests in proposed or existing transactions or arrangements.

Duty two requires Directors to have regard (amongst other matters) to the likely consequences of any decision in the long-term, the interests of employees, the need to foster relationships with customers, suppliers and others, the impact of operations on the community and the environment, the desirability of maintaining a reputation for high standards of business conduct and the need to act fairly as between shareholders. The government has stated that promoting success means striving for a “*long term increase in value*”.

The conflict of interest provisions requires Directors to avoid profiting from their position as a Director on an opportunistic basis and apply to exploiting an opportunity, property or information even when the Company could not take advantage of it.

Version	
Version No. and Date	v1.0; 22-02-2019
Profile created/updated by	Peri Thomas
Profile reviewed by people manager (state name & role)	Chris Hitchen, Chair of Board
Profile reviewed by HR (state name & role)	Peri Thomas, Head of HR



### Border to Coast Process for Partner Fund Nominated Non-Executive Directors

- 1 The Border to Coast Board has requested that the following be shared with the Joint Committee to provide transparency and promote understanding for those considering standing for nomination.

#### Pre-Selection

- 2 Prior to beginning the selection process the Joint Committee and Nominees should satisfy themselves that those offering themselves for selection do not have an unacceptable conflict of interest if the person appointed continues with their role with the partner fund's pension committee and the Board of Border to Coast.
- 3 The applications from the Nominees should illustrate how they meet the requirements of the Job Description (Appendix 4), including the required minimum time commitment and the requirement to undertake regular training, some of which is regulatory and compulsory.
- 4 The applicants should be comfortable with the post-selection process, including the FCA approval process. The Appendix to the Job Description details the requirements expected of directors by the FCA and the Companies Act.
- 5 Applicants must be willing to share the results of their DBS check with Border to Coast and the members of its Board.

#### Post-Selection

1. The Board would expect to meet the nominated candidates to assess whether they are comfortable to recommend to the Shareholders that they approve the appointment of the proposed nominee as a director of the company.
2. The Board reserves the right to not recommend for approval if they believe that the nominees do not meet the role profile criteria.
3. To satisfy the FCA regime, the nominees must be credit checked, satisfy anti-money laundering checks and be cleared by the Data Barring Service. At present all NEDS must then be approved by the FCA (after December 2019 under the Senior Managers and Certification Regime (Core), Border to Coast will have to self-certify NEDs other than the Chair).
4. Nominees will need to provide personal information, including photo ID and two forms of address information to apply for the Data Barring Service checks. The process of gathering the data will be managed by the Border to Coast HR team. Once the credit reference, anti-money laundering and DBS checks are completed and shared with Border to Coast, the Border to Coast Compliance team will apply for FCA approval, up to December 2019, or afterwards, register the new NED with the FCA.

5. The Board must approve the recommendation of the nominees to the Shareholders for approval to be directors. The Board may approve conditional upon the successful completion of the checks referred to above and the FCA's approval.
6. Once the checks are successfully completed, and FCA and Board approval has been obtained, the Company Secretariat will issue a resolution seeking the consent of 75% of the shareholders in line with the requirements of the Shareholders' Agreement. The time-frame for the return of Shareholder approvals vary between each of our Partner Funds.
7. Once approved by the Shareholders, the nominees will be required to enter into a service contract with Border to Coast.
8. Once all of the above is completed, the Company Secretary will register the nominees on Companies House and update the Company's register of Directors and Secretaries. Only then, will the nominee become a director of Border to Coast. This process may take up to 3 months. Hence the term for new Partner Fund nominated NEDs is expected to run from the October following nomination.

#### **Time Commitment and Remuneration**

9. The Board also asked that further information be provided regarding the time commitment involved in the role. The Board is currently scheduled to meet six times a year, with Committee meetings 4-5 times a year in addition. Telephone meetings may occur where urgent matters are under consideration. The full meetings usually last about 5 hours; telephone meetings are shorter and are held to deal with urgent business. Typically meetings are held in the Company's office in Leeds. Papers are circulated a week before the meeting and reading time is required.
10. It is emphasised that individuals will sit as directors of the Company and provide expert input as such based on their personal knowledge and experience. They are not holding office as representatives of individual funds and will be expected to act in their view of the best interests of the Company.
11. Remuneration is approved by Shareholders on recommendation of the Remuneration Committee. The current level has been agreed at £12,000 pa,



**Date of Meeting:** 4<sup>th</sup> June 2019

**Report Title:** Proposed Future Joint Committee Meeting Dates

**Report Sponsor:** Officer Operations Group Member – Clare Gorman

## 1.0 Executive summary

1.1 The dates of the Border to Coast Joint Committee (JC) meetings for the next year, shown in paragraph 3.4 of this report, were agreed at the JC meeting held on 11<sup>th</sup> July 2018.

1.2 The JC's key responsibility is to provide collective oversight of the performance and direction of Border to Coast Pensions Partnership Ltd, and the dates were set with quarterly performance monitoring in mind.

1.3 Following the now established pattern, the **proposed** dates for future meetings of the Border to Coast JC are:

- Tuesday 16 June 2020;
- Tuesday 29 September 2020;
- Tuesday 24 November 2020;
- Tuesday 9 March 2021;
- Tuesday 8 June 2021;
- Tuesday 28 September 2021;
- Tuesday 23 November 2021; and
- Tuesday 8 March 2022.

1.4 The proposed dates will be firmed up after this meeting with the newly elected Border to Coast JC Chair and Vice Chair.

## 2.0 Recommendation

2.1 That members note the proposed future JC meeting dates set out in paragraph 1.3 above.

### 3.0 Agreement of the BCPP Joint Committee dates

3.1 At the 10<sup>th</sup> July 2018 meeting of the JC, future JC meeting dates were agreed to the end of the 2019/20 municipal year. Prior to that, JC meeting dates had been set at (relatively) short notice, based on availability of key people.

3.2 It was recognised that there was a need to both plan dates in advance and set a pattern for future JC meetings, with the pattern facilitating the JC's "second phase" responsibility to provide collective oversight of the performance and direction of Border to Coast Pensions Partnership Ltd.

3.3 The dates proposed at the July 2018 meeting:

- followed quarter ends for timely review of Border to Coast Pensions Partnership Ltd's sub funds' performance; and
- avoided (known) key LGPS conferences, August due to holidays, and May when local authorities make member appointments.

3.4 The BCPP JC dates subsequently agreed were:

	Venue	Review performance for quarter ended
Wednesday 21 November 2018	Northallerton	30 September 2018
Tuesday 19 February 2019	Northallerton	31 December 2018
Tuesday 4 June 2019	Leeds (Aspire)	31 March 2019
Wednesday 11 September 2019	tbc	30 June 2019
Wednesday 20 November 2019	tbc	30 September 2019
Monday 9 March 2020	tbc	31 December 2019

The first assets were transferred to Border to Coast Pensions Partnership Ltd in July 2018, so the first quarterly monitoring covered the quarter ending 30 September 2018.

3.5 The proposed JC dates, shown in paragraph 1.3 of this report, will be firmed up after this meeting with the newly elected JC Chair and Vice Chair, and then confirmed to JC members by email.

### 4.0 Other relevant dates for BCPP JC members

4.1 BCPP Ltd holds two annual meetings also of relevance to Border to Coast JC members, namely the Annual Investment Conference and the Annual General Meeting.

- 4.2 The Annual Investment Conference is for Border to Coast Pensions Partnership Ltd's **clients**. The last Conference was held on 8<sup>th</sup> and 9<sup>th</sup> November 2018, and the next is planned for **10<sup>th</sup> and 11<sup>th</sup> October 2019**, with early-October timing likely to be established going forward.
- 4.3 The first Annual General Meeting for BCPP Ltd's **shareholders** will be held on **18<sup>th</sup> July 2019**, with mid-July timing likely to be established going forward.
- 4.4 To date, meetings of the Chairs of the Border to Coast Local Pension Boards have been held on 8<sup>th</sup> November 2018 and 22 May 2019, with the pattern of two meetings per year established, with one held during the Border to Coast Investment Conference.

## **5.0 Report author:**

Clare Gorman, [clare.gorman@northumberland.gov.uk](mailto:clare.gorman@northumberland.gov.uk) 01670 623579

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## BCPP Joint Committee

**Date of Meeting:** 4<sup>th</sup> June 2019

**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

- the final spend in 2018/19 was £17,300 against a budget of £30,000
- the position for the 2019/20 budget

### 2.0 2018/19 Joint Committee Budget

- 2.1 At the Joint Committee meeting in January 2018 a budget of £30,000 was approved to cover the nine month period from July 2018 to March 2019. Any costs incurred prior to July 2018 were all part of the set up costs of pooling.
- 2.2 This Budget of £30,000 is 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. As previously noted it is difficult to determine whether this budget is set at the appropriate level. This will be monitored both in year and for future years and adjusted accordingly.
- 2.3 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.
- 2.4 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.
- 2.5 The budget will also be used to cover travel expenses for scheme member representatives appointed as observers to the Joint Committee. This is

because they will be deemed to be representing the scheme members from all twelve funds.

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

### **3.0 Final Expenditure to 31<sup>st</sup> March 2019**

- 3.1 In 2018/19 the total expenditure against the budget of £30,000 was £17,300. A breakdown of the expenditure incurred is shown below;

Secretariat Support to Joint Committee - £900

Catering and Room Hire for Joint Committee - £800

Legal Advice - £15,300

Travel and Subsistence - £300

- 3.2 As can be seen from the paragraph above the largest element of cost is in relation to the legal work. Of this £13,000 relates to legal work undertaken by Burness Paull, who has been appointed by the funds to provide advice on the alternatives structures and legal agreements.

- 3.3 The remainder of the cost of legal work relates to legal support provided by South Tyneside Council in relation to the alternatives structures and also a co-ordination of work on governance arrangements.

### **4.0 Budget for 2019/20**

- 4.1 At the Joint Committee Meeting on 11<sup>th</sup> March 2019, a budget of £40,000 was approved for 2019/20. This is in line with the budget for the nine month period of 2018/19 which was set at £30,000.

- 4.2 It should be noted however, that it remains difficult to determine whether this level of budget is appropriate.

- 4.3 A forecast of expenditure against this budget head has not been provided due the fact it is still very early into the financial year. It should be noted however that the provision of legal advice in relation to a Disclosable Pecuniary Interest within the meaning of s31 Localism Act 2011 and dispensations, will be charged against this budget. At the time of writing the cost of this advice is unknown.

#### **Report Author:**

Ian Bainbridge, [ian.bainbridge@southtyneside.gov.uk](mailto:ian.bainbridge@southtyneside.gov.uk)

#### **Further Information and Background Documents:**

N/A





## Border to Coast Pensions Partnership Ltd – Joint Committee

**Meeting date:** 4 June 2019

**Report Title:** Climate Change Working Party Update

**Report Sponsor:** Border to Coast CEO – Rachel Elwell

### 1 Executive Summary:

- 1.1 As part of the 2018 Border to Coast Responsible Investment Policy review, it was agreed by the Joint Committee and the Border to Coast Board that a working party of Partner Fund Officers and Border to Coast personnel, with support from others including our external partners, would be established to consider in depth the implications of climate change on our approach to investment.
- 1.2 This was in response to a recognition that a commitment to Responsible Investment is becoming increasingly important to Partner Funds. In order to ensure we continued to make the most of the strong voice that collective policies give us, it is important we work together to develop a shared understanding of the implications of climate change. And, we hope, a shared response building on the approach to climate change already set out in the RI policy agreed by all Partner Funds (see section 3).
- 1.3 The working party kicked off in February 2019 and included officers from Lincolnshire, South Yorkshire Pensions Authority, Surrey and Tyne and Wear together with Border to Coast's CEO, Chief Risk Officer, Head of Responsible Investment, an experienced Portfolio Manager and an operations analyst. We invited Jaap Van Dam, Head of Strategy at PGGM, the asset management business supporting the large Dutch pension fund PFZW, who has been a driving force in the development of their approach to managing climate change. Jaap helped the working party to set out its objectives and a plan of work whilst sharing PGGM's experiences and those of other large asset owners around the world. See section 4 for further details.
- 1.4 Since then, the working party has met twice more, considering risk identification and monitoring (with support from Aon) and the case for engagement (with support from Robeco). We are now halfway through the programme of work; the next sessions will consider the role of asset managers (working with LGIM), collaboration (working with the Church of England's Pensions Board RI team, who are world leading in this area) and finally communication and review of our climate change policy (supported again by Jaap) ahead of reporting back to the Joint Committee and Board later in 2019.

### 2 Recommendation:

- 2.1 The Joint Committee is asked to note the update provided in this report.

### 3 What is Border to Coast already doing?

- 3.1 Border to Coast and the Partner Funds already have an agreed approach to climate change, as set out in the [Responsible Investment Policy](#) (para 5.5):

*Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. 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. Border 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 with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)<sup>1</sup> recommendations.*
- *Encourage companies to adapt their business strategy in alignment with a low carbon economy.*
- *Support climate related resolutions at company meetings which we consider reflect our RI policy.*
- *Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.*
- *Co-file shareholder resolutions at company AGMs 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.*
- *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).*

- 3.2 In line with good practice in this area, and reflecting guidance issued recently by Central Banks, Regulators and Policymakers globally (including the UK), Border to Coast has developed a three-pronged approach to considering climate change risk:

3.2.1 Analysis of risk in investment decision-making: building on the work already started at South Yorkshire on how to embed climate risk into its investment process. This includes developing information to enable analysis of climate risk including data from MSCI, RepRisk and Bloomberg. We are working to improve our understanding of the reliability of these datasets before considering their use for reporting purposes. We also actively engage with companies to encourage compliance with TCFD<sup>1</sup> principles to support our analysis.

3.2.2 Engagement: working in conjunction with both Robeco, our engagement and voting partner (whose 20 themes include climate change and milestone reporting), and with other bodies such as Climate Action 100+ and IIGCC<sup>2</sup>, to ensure we join with others to make a greater impact through scale. LAPFF are also active in this area.

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<sup>1</sup> [TCFD](#), Task Force on Climate-related Financial Disclosures

<sup>2</sup> [IIGCC](#), Institutional Investors Group on Climate Change

3.2.3 Ensuring external managers with whom we partner also consider climate change through a rigorous assessment process at appointment stage and ongoing discussions and engagement post appointment for both public and private markets.

3.3 It remains early days in ensuring that these are fully embedded. It is important that Partner Funds are kept informed and involved as this evolves.

## 4 Progress Update

4.1 Climate Change has the potential to be game changing in terms of how the world operates; impacting the way we live and work and, as a consequence, the ways in which industry develops and capital flows between the old and the new economies. The impact on the way in which we invest will be significant as government policy brings new regulation including carbon pricing; research into new, cleaner technologies starts to deliver better returns; and demand for (and supply of) more climate-aware products gathers pace.

4.2 It is also an area where there is significant pressure on at least some Partner Funds to take action: with some groups calling for divestment, others calling for measurement and action on particular metrics such as carbon foot printing. We want to ensure that these areas have been considered carefully and judged on their own merits as potential tools alongside other measures.

4.3 Climate change risk is of course only one aspect of Responsible Investment. Information about the work undertaken and progress made in this important strategic area, including our collaborations with other asset owners and managers and our quarterly voting and engagement reports, can be found on [Border to Coast's website](#).

4.4 On 4th February, we had our kick-off working party session – the first of six sessions scheduled for the next six months. We discussed our objectives for the working party, our scope and how we wanted to work together. Based on the insights from the Partner Fund survey carried out prior to kick-off, together with learnings from others across the industry, common goals were agreed for the working party over the next six months:

- Improve understanding of climate change risks and opportunities
- Identify actions to improve investment outcomes. What does “good” look like in:
  - Risk analysis and integration into investment process
  - Engagement vs divestment / exclusion
  - Collaboration and influencing policy
  - Communication and education
- Develop a clear climate change strategy, including what we will and won't do, success metrics and a list of the instruments and portfolio activities we will put to work in the next 1-2 years
- Develop a plan to help Pensions Committees to consider and manage climate change as part of strategic asset allocation decision-making.

4.5 A climate change briefing newsletter was issued in March 2019. Further briefings are anticipated throughout the process. There will also be a climate change section in the Border to Coast Annual Responsible Investment Report, which is due to be published in early July.

- 4.6 On 19<sup>th</sup> March we had a session to understand more about the identification and quantification of climate change risk. The research undertaken prior to the meeting highlighted the growing change in regulation since the Paris Agreement and the tools available to measure and quantify climate risk.
- 4.7 We noted that there is an increasing number of companies providing ESG screening tools, scenario analysis, carbon metrics and climate-related indices. Users must be aware of the limitations of the data and use it as a starting point for deeper analysis. As noted in section 3, Border to Coast is already carrying out work in this area for our equity portfolios. We have identified opportunities to look at further development including additional scenario analysis and the extension of the assessment of carbon risk into other asset classes. There are costs associated with these and therefore we will consider prioritisation and resourcing when we have reviewed the other aspects of managing climate risk and can make a case for additional resource requirements in the round.
- 4.8 The third session took place on 23<sup>rd</sup> April and took the form of a debate between the case for engagement versus the case for divestment. This is fundamental to the heart of the pressure that Partner Funds are experiencing from action groups who want to see urgent action as part of the Climate Emergency movement. We heard examples of the ways in which engagement can be powerful but also that it can take time and requires significant effort and collaboration between asset owners. A strong example is the recent successful climate change shareholder resolution at BP, which was supported by the Board after significant work by the IIGCC (and of which Border to Coast was a co-filer). However, there are also examples of where engagement has not worked and, for example, LGIM took the decision to “blacklist” eight companies last year, all of whom have since started to engage.
- 4.9 We also discussed whether “low carbon” strategies were a potential way for Partner Funds to start to manage transition risk through their strategic asset allocation, as opposed to asking asset managers (including Border to Coast) to manage purely against a traditional index, perhaps weighting stock allocations to those companies within a particular sector who are more climate change aware. There remain issues with the data underlying such low carbon strategies (with the data generally being backwards looking and not always accurate, although this is starting to improve) and, again, this is more of a divestment approach than one of engagement.
- 4.10 The key action coming out of this workshop was to consider further the circumstances in which Partner Funds might want to divest and to be clear about these situations in order to help with engagement and / or managing transition risk.

## **5 Risks**

- 5.1 In order to maintain collective policies and the strong voice this gives us, we need to ensure that Partner Funds are in agreement about a common approach to climate change. 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.

- 5.2 Climate change risk has the potential to have a material impact both on the physical environment and on the financial world. Physical risks could impact members and administering authorities / participating employers as well as certain types of investment; the transition to a low carbon economy (including the potential intervention by regulators / governments) is likely to impact the value of investments.
- 5.3 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.

## **6 Conclusion:**

- 6.1 The Committee is asked to consider the recommendations as set out in section 2.

## **7 Report Author:**

Rachel Elwell, [Rachel.elwell@bordertocoast.org.uk](mailto:Rachel.elwell@bordertocoast.org.uk), 24 May 2019

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