Public Document Pack

PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

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

Date: **Wednesday 20 November 2019**

Time: **11.45 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 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 David Coupe	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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Next Meeting of the Joint Committee: Monday 9th March 2020

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PENSIONS PARTNERSHIP

Minutes of the Border to Coast Joint Committee
Wednesday 11 September 2019 - Aspire, Leeds

Present

Members	Councillor David Coupe, Councillor Mark Davinson, Councillor Tim Evans, Councillor Wilf Flynn, Councillor Doug McMurdo, Councillor Bob Stevens, Councillor Mick Stowe, Councillor Eddie Strengiel, Councillor Jeff Watson and Councillor John Weighell Nicholas Wirz (Scheme Member Representative)
Border to Coast Ltd Representatives	Daniel Booth, 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	Amanda Alderson, Ian Bainbridge, Alison Clark, Clare Gorman, Neil Mason, Julie McCabe, Michael Nicolaou, Nick Orton, Jo Ray, Gill Richards and Craig Tyler
Statutory Officer Representative(s)	Julian Neilson
Apologies were received from	Councillor Eileen Leask, Councillor Richard Meredith, Councillor Mel Worth and George Graham

1 APOLOGIES/DECLARATIONS OF INTEREST

Apologies were noted as above.

There were no declarations of interest.

2 MINUTES OF THE MEETING HELD ON 4 JUNE 2019

RESOLVED – That, subject to Daniel Booth's name being removed from the list of Fund Officers and added to the list of Border to Coast representatives, the minutes of the meeting of the Committee held on 4 June 2019 be agreed as a true record.

3 ANNUAL ELECTION OF COMMITTEE CHAIR AND VICE-CHAIR. ANNUAL NOMINATION TO THE BORDER TO COAST BOARD - IAN BAINBRIDGE

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

It was proposed to hold a selection process at the close of the meeting. The Joint Committee would select, in the following order:

- A nominee for Non-Executive Director for a two year term (2019-2021)
- A Chair for the Joint Committee for one year (2019-2020)
- A Vice-Chair for the Joint Committee for one year (2019-2020)

Cllr Sue Ellis announced that, with regret and after a great deal of thought, she would be resigning as a Non-Executive Director to the Board of Border to Coast for personal reasons.

The Chair thanked Cllr Ellis for all her hard work for Border to Coast, noting that she had been involved since the inception of the Pool.

After discussion the Committee decided that they would nominate one Non-Executive Director after the close of the meeting and a postal vote would be arranged to deal with the nomination of the second Non-Executive Director.

C Hitchen, whilst respecting that decision, requested that the postal vote be carried out as quickly as possible. The two new NED's would have to be trained and be approved by the FCA which would take time and there was a danger the Board could be inquorate.

S Ellis commented that she would, where possible, work with the Board until the two NED's were in place.

With regards to the voting system, it was noted that there was the possibility for a tied vote to occur. After discussion it was decided that if this occurred the matter would be decided by the toss of a coin.

Officers queried whether the Committee wished the term of office to be served by the Chair and Vice-Chair to run to the June 2020 or September 2020 meeting of the Joint Committee.

The Committee decided that the June meeting was preferable.

RESOLVED:

i) That the Committee note the guidance about the roles as set out in the report.

ii) That members undertake a selection procedure for the roles as set out above using the single transferable vote method following the conclusion of the meeting.

iii) That the nominee for the second Non-Executive Director would be selected by a postal vote as soon as possible.

iv) That if there was a tied vote for any of the roles that this would be decided by the toss of a coin.

v) That the term of office served by the Chair and Vice-Chair of the Committee should be until the June 2020 meeting of the Committee.

4 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE

I Bainbridge presented a report which detailed the position on the Committee's 2019/20 Budget.

Members were reminded that at the Joint Committee meeting on 11th March 2019 a budget of £40,000 was approved for 2019/20.

To the end of August 2019 total expenditure committed against the budget of £40,000 was £7,000.

It was noted that the largest element of cost was in relation to legal work which related to advice from Counsel in connection with the appointment of a Partner Fund Nominated Non-Executive Director.

Members were informed that further external legal advice may be required in connection with the Border to Coast Compensation Policy; the advice may be needed in connection with any potential amendment to the Shareholder Agreement.

RESOLVED – That the 2019/20 budgetary position be noted.

5 ANNUAL PERFORMANCE OVERVIEW: UK EQUITY FUND AND OVERSEAS DEVELOPED FUND - DANIEL BOOTH

A report was considered which provided the Committee with an overview of the performance of the UK Equity Fund and Overseas Developed Fund, together with risk metrics until 31st July 2019 and a summary of the upcoming product review process.

Members were reminded that Border to Coast launched the UK Listed Equity Fund and the Overseas Developed Equity Fund on 26th July 2018.

Since launch the UK Equity Fund had delivered a total return of 4.3% and a relative return of 2.0% which was above the annual return of benchmark +1.0%.

The UK Equity Fund outperformed in 9 of 13 months with strong performance registered from November 2018 onwards, the report contained details of the cumulative relative performance and the monthly relative performance.

D Booth informed the Committee that since launch, the Overseas Developed Equity Fund had delivered a total return of 3.6% and a relative return of 0.93% above the benchmark (net withholding tax) and 0.13% above the benchmark (gross withholding tax).

It was noted that as the portfolio is measured net of withholding tax it was best practice to measure the benchmark net of withholding tax as a like-for-like comparison.

Members were informed that as part of the annual proposition review, Border to Coast were evaluating the performance target, team structure, portfolio construction, benchmark and risk and compliance limits for the two funds.

The results of the review would be discussed with the Board and the invested Partner Funds before any decisions were made to make changes.

The key risks were noted as:

- Mismatch with customer requirements.
- Investment styles/strategies of managers do not perform as expected.
- Product evolution.

Further details of the risks were included in the report.

RESOLVED – That the report be noted.

Exclusion of the Public and Press

6 CEO REPORT AUGUST 2019 - RACHEL ELWELL

The Committee considered the CEO's report for the period since the last Joint Committee meeting which contained:

- Progress update including interactions with Partner Funds.
- A summary of risk positioning and performance of the launched funds.
- An update on progress with Global Equity Alpha.
- An update on progress with Investment Grade Credit and Multi-Asset Credit.
- An update on progress from a corporate functions perspective and the expected outturn for the 2019-20 Operating Budget.

During the period workshops and calls had been held with Pensions Officers and their advisors on Fixed Income, Global Equity Alpha, Multi-Asset Credit and Investment Strategy.

The final Climate Change Working Party had been held on 9th September and it was hoped Border to Coast would be in a position to be able to recommend the next steps in terms of proposed changes to the Climate Change policy, further work that could be undertaken and a communication plan for the November Joint Committee meeting.

A number of workshops were planned for the next quarter including Global Equity Alpha and Investment Grade Credit transitions, Alternatives next steps, finance and reporting and Responsible Investment. It was noted that the Annual Investment Conference was in Leeds on 10th and 11th October.

Included as an appendix to the report was the current Management Information that had been developed to allow the tracking of progress for each Partner Fund.

With regard to risks, it was noted that there were no new strategic risks, although the implications of the Partner Fund investment triennial review and political and regulatory risk were hot topics at the moment.

RESOLVED – That the report be noted.

7 ALTERNATIVE ASSET UPDATE - DANIEL BOOTH

A report was submitted which gave an update on Alternative Assets.

Members noted that to date four commitments had been made across the Private Equity and Infrastructure sub-funds. A summary of each investment was included within the report.

Border to Coast had secured a fee discount on one fund and had secured capacity in three other funds. It was expected that future co-investment funds and co-investments would offer additional alternative fee savings.

The Committee was informed that the investment team currently had three further strategies in the near-term due diligence pipeline, which were due to proceed through Border to Coast's internal governance process imminently. Information on these was included within the report.

R Elwell informed the Committee that it was expected that investing the commitments within the agreed timeframe could be met, but Border to Coast were keeping a close eye on the situation given the level of assets to commit and strong demand across the market.

The report also contained an update on future Alternatives activity and details of the key risks.

RESOLVED – That the report be noted.

8 STANDING ITEM - UPDATE ON EMERGING MATTERS - RACHEL ELWELL/FIONA MILLER/IAN BAINBRIDGE

None.

9 ANY OTHER BUSINESS

N Wirz requested that the Committee re-consider the number of Scheme Representatives on the Joint Committee as having just one was not fully compliant with MHCLG guidance.

Cllr Stowe suggested an ongoing dialogue on increasing the number and to re-consider the matter in the future.

It was noted that a number of Members and officers involved with the Committee were also Scheme members.

<u>Post-Meeting Note</u>

The results of the elections held at the close of the meeting were as follows:

Non-Executive Director – Cllr John Holtby (for a period of 2 years from approval by the Board)

Chair of the Joint Committee – Cllr Doug McMurdo (to June 2020)

Vice-Chair of the Joint Committee – Cllr Tim Evans (to June 2020)

CHAIR

BCPP Joint Committee

Date of Meeting: **20th November 2019**

Report Title: **Election of Committee Chair and Vice-Chair**

Nominations to Border to Coast Board

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

1.0 Executive Summary:

1.1 This report sets out the results of the election for the roles of Chair and Vice- Chair of the Joint Committee and the elections for nomination to the Board of Border to Coast for Non-Executive Directors to sit on the Company Board.

1.2 Elections for the Chair and Vice Chair of the Joint Committee and one of the nominations for the Non Executive Director role were held at the close of the 11th September Meeting of the Joint Committee. Subsequently an addition nomination process for a Non Executive Director was completed by means of a postal ballot.

1.3 Details of the successful candidates are set out in the body of this Report

2.0 Recommendation:

2.1 That Members note the results of the elections.

3.0 Chair and Vice Chair of the Joint Committee:

3.1 Councillor McMurdo (Bedfordshire) was re-elected as Chair of the Joint Committee. Councillor Evans (Surrey) was re-elected as Vice Chair.

4.0 Partner Fund Nominated Non-Executive Director:

4.1 At the end of the Joint Committee meeting on 11th September the members of the Joint Committee selected Cllr Holtby (East Riding) as their nomination for the vacant role as Non-Executive Director.

4.2 At the same meeting Cllr Ellis resigned from her position as a Non-Executive Director prior to the end of her term of office. Border to Coast requested that this additional vacancy was filled as soon as possible.

4.3 Consequently, the Joint Committee agreed that a further nomination process would be commenced and run by postal ballot in advance of the next meeting in November.

4.4 A postal ballot was subsequently held and Cllr Watson (Northumberland) was selected as a further nomination to the Company as a Non-Executive Director.

4.5 The two nominations to the Company Board will now be subject to approval by the FCA, appointment in principle by the Board and finally approval by the shareholders of the Company. This process has been commenced.

4.6 Cllr Holtby will serve for an initial two year term as he is filling the regular vacancy on the Company Board. Cllr Watson will serve an initial one year term being the unexpired period of the previous incumbent's appointment. Both of them will be eligible for re-selection at the end of their respective terms and the cycle of appointment will revert to a single appointment each year.

5.0 Election Cycle:

5.1 Members will recall that the election cycle was delayed this year whilst legal advice was sought as regards the declaration of interest and potential dispensations under the Localism Act. It was agreed that the elections next year (of Chair, Vice Chair and one Non Executive Director) would revert to the previous point in the committee cycle, taking place at the June meeting.

6.0 Conclusion:

6.1 That the Joint Committee has satisfactorily concluded its responsibilities in respect of electing its Chair and Vice-Chair and nominating suitable candidates as Non-Executive Directors of the Company Board.

Report Author:

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

BORDER TO COAST PENSIONS PARTNERSHIP

BCPP Joint Committee

Date of Meeting: **20th November 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 position on the 2019/20 Budget.

2.0 2019/20 Joint Committee Budget

2.1 At the Joint Committee meeting on 11th March 2019 a budget of £40,000 was approved for 2019/20.

2.2 This Budget of £40,000 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 from partner funds and external sources) 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.

2.7 To the end of October 2019 total expenditure committed against the budget of £40,000 was £9,600. A breakdown of the expenditure incurred and committed is shown below;

Secretariat Support to Joint Committee - £1,500

Catering and Room Hire for Joint Committee - £2,500

Legal Advice - £5,000

Travel and Subsistence - £600

2.8 As can be seen from the paragraph above the largest element of cost is in relation to legal work. This relates to advice from Counsel in connection the appointment of a Partner Fund Nominated Non Executive Director.

2.9 Further external legal advice is in the process of being acquired in connection with the Border to Coast Compensation Policy, following an error. This was discussed at the informal meeting of shareholders on 4th June 2019. The advice will be taken on behalf of the Shareholders and will relate to a supplemental agreement to the main shareholder agreement. It is estimated this advice should cost less than £5,000. This is not included in the figures above.

2.10 At the time of writing the expenditure is expected to remain within the budget.

3.0 Investment Consultant for the Joint Committee

3.1 At the pre meeting for the September meeting of the Joint Committee, the issue of the funds appointing an investment consultant to advise the Joint Committee was discussed.

3.2 Should a decision be taken to appoint a consultant, it would be appropriate for this to be met out of the Joint Committee Budget, provided this was for the benefit of all funds.

3.3 Following the meeting in September, officers have discussed the merits of appointing a consultant. There were concerns raised about the remit and role of a consultant and how this would interact with the role and responsibilities of the consultants appointed by individual funds. What would need to be avoided is a situation where conflicting advice is received from a consultant advising the Joint Committee and a consultant advising an individual Pension Fund.

3.4 It is important to recognise that it is the responsibility of each individual Fund to come to its own conclusion on decisions to invest, disinvest and to be comfortable with the performance and service from Border to Coast. It is not the role of the Joint Committee to impose views on individual funds or Committees.

3.5 That said, if there are specific collective issues where the appointment of one advisor can be made where all twelve funds will benefit and therefore should contribute towards the costs, it is entirely appropriate that this budget is used. This is the approach that has been used for legal work and could also be used for investment work if a suitable project can be identified.

3.6 It should also be noted that some funds have collaborated on due diligence work on investment products where they share the same advisor. This approach will continue to be encouraged. It should be noted that this would not be suitable to be charged against the Joint Committee Budget as different funds invest in different products.

3.7 Should members wish to appoint an investment advisor, the consultant's remit should be consistent with that of the Joint Committee. The consultant would assist in the Joint Committee's "*oversight of investment performance of the collective investment vehicles comprised in the BCPP Pool.*"

4.0 Conclusion

4.1 The current expenditure is within the Joint Committee Budget.

4.2 It is considered appropriate to use the Joint Committee budget for investment consulting advice, provided this was for the benefit of all funds in Border to Coast and be consistent with the role of the Joint Committee. However, care would need to be taken to ensure that this does not result in conflicts at individual funds and does not impinge on each funds own fiduciary duties.

Report Author:

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

Further Information and Background Documents:

N/A

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Border to Coast Pensions Partnership Ltd Joint Committee

Meeting date: 20 November 2019

Report Title: Responsible Investment Policies Annual Review 2019

Report Sponsor: Border to Coast CEO – Rachel Elwell

1 Executive Summary

1.1 The Responsible Investment Policy and Corporate Governance & Voting Guidelines were developed in 2017 in conjunction with the twelve Partner Funds and are due to be reviewed annually. Both policies will then be updated as necessary through the appropriate governance channels. The process for review includes the participation of all the Partner Funds; this is to ensure that we have a strong, unified voice.

1.2 Both policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks. The main changes are to reflect the new Shareholder Rights Directive that came into force earlier this year and to continue the clarification of our intentions on voting and alignment with the PRI. We are not recommending any changes to underlying principles.

1.3 We have considered the feedback from the Climate Change Working Party (see section 6) in our review. Whilst the recommendation is for no substantive changes this year, there are areas recommended for further consideration which may lead to changes in future years.

1.4 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2020 proxy voting season. We have asked Partner Funds to complete their reviews by the end of 2019 so that we are able to carry out this implementation and disclose our voting intentions to companies prior to the peak season. We have already had feedback from Pensions Officers, but the Pension Committee review process is still to take place. Given the announcement of the timing of the General Election, there is a risk that some Committees may be delayed in their reviews: we are working closely with Pensions Officers on this.

1.5 Border to Coast is considering the Responsible Investment strategic direction to 2022 to be able to fulfil increasing regulatory requirements and support Partner Funds. This will involve working with Partner Funds and pension committees through informal working groups with recommendations being reported back to the Joint Committee.

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 We take our responsibility seriously as an active owner and steward of the investments managed for our Partner Funds with the aim being to manage risk and generate sustainable, long-term returns. 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.

3.2 The 2018 review led to a significant update to the RI policy to reflect reporting requirements once Border to Coast becomes a signatory to the Principles for Responsible Investment (PRI). The Corporate Governance and Voting Guidelines were expanded to cover global corporate governance trends.

3.3 Following Board approval and support of the Joint Committee in November 2018, the revised policies were taken 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. Three areas were identified for clarification of Border to Coast's position; climate change, diversity and political donations.

3.4 Diversity has been a focus theme for Border to Coast over the last year and will continue to be for the coming year. There is growing evidence that more diverse boards result in better performing companies leading to better investment returns and financial outcomes for investors. A briefing paper was produced in December 2018 for Partner Funds (attached as Appendix 3) to support the stance taken. Ahead of the 2020 review we will look at diversity in its broadest sense. We will consider the Parker Review which advocates for increasing the ethnic diversity of UK Boards and the Hampton-Alexander Review which promotes increasing the number of women in leadership positions.

3.5 The wording on political donations in the Voting Guidelines was broadened last year in order to be applicable to other markets removing the words '*It is therefore prudent to oppose all political donations*.' Only UK companies put binding political donation authorisations up for vote, with companies who have dual listings putting this up for vote in both markets. Political donations appear as an agenda item in the UK in order for companies not to contravene the Political Parties, Elections and Referendums Act 2000 (PPER Act 2000). Although we will not support direct political donations to political parties or individual political candidates a blanket ban on donations, due to the definition of this term in the PPER Act 2000, could prevent donations to charities and educational causes. Shareholder resolutions in several developed markets focus on political donations; we will generally support resolutions requesting greater disclosure of trade association and industry body memberships. Where given the opportunity to vote on political contributions, we will oppose any authorisations.

3.6 Climate risk was identified as an area where Border to Coast and the Partner Funds needed to develop knowledge and better understand the potential investment risks and opportunities. Support was given by the Board and Joint Committee to convene a climate change working party. Six sessions were held with assistance from Jaap Van Dam, Principal Director of Investment Strategy at PGGM in the Netherlands. External experts were invited to speak at sessions covering identifying & quantifying risk, engagement or divestment, the external manager approach and collaboration. The reflections and findings are covered in section 6 of this report.

3.7 The Voting Guidelines were broadened last year to capture differences in global governance practices to avoid having multiple policies covering different jurisdictions. We recognise that corporate governance standards vary across the globe and believe we can improve market practice through our voting rights. We want to ensure that we retain a credible voice which would be lost by blindly voting against all resolutions in markets where standards are not yet as high, whereas a vote against an important resolution will make a much more powerful statement.

4 Review process

4.1 The RI policy and Corporate Governance & Voting Guidelines (the Voting Guidelines) are reviewed annually or when material changes need to be made. The annual review process commenced in August to ensure any revisions required are in place ahead of the 2020 proxy voting season.

4.2 Current policies were evaluated by Robeco, our voting and engagement provider, considering the global context and best practice. This included consideration of the International Corporate Governance Network[1] (ICGN) Global Governance Principles, the UK Corporate Governance Code when reviewing the Voting Guidelines and the Shareholder Rights Directive (SRD II)[2] where requirements have been incorporated into the Financial Reporting Council's (FRC) rules when reviewing the RI policy.

4.3 The policies of best in class asset managers, and asset owners considered to be RI leaders were also reviewed to determine how best practice has developed.

4.4 A workshop was held with the officers of the Partner Funds on 10th October. Feedback was received from South Yorkshire ahead of the meeting in relation to the Corporate Governance & Voting Guidelines and covered auditor rotation, political donations and tenure. These points along with the other proposed revisions to both policies were discussed, and the draft policies reflect feedback from the officers.

4.5 The policies have been discussed at Border to Coast's Investment Committee and following review by the Board, will be put to the Joint Committee for review and Pensions Committees for consideration about whether they can align their own policies with the Border to Coast policy.

5 Key changes

5.1 The RI policy underwent a substantial rewrite last year to allow Border to Coast to satisfy future PRI reporting requirements, whilst maintaining consistency with the principles previously adopted. This year the review has taken into account SRD II requirements which are incorporated into the FCA's rule changes published at the end of May 2019, and also further improvements to satisfy PRI reporting.

5.2 ESG factors are considered when analysing potential and ongoing investments. The table covering potential issues has been expanded to include additional ESG issues as examples; this is not an exhaustive list. The additions are seen as posing increasing risks to investors, with regulation, and increased government and political pressure.

[1] International Corporate Governance Network - investor-led organisation to promote effective standards of corporate governance and investor stewardship communicated by their Global Governance Principles and Global Stewardship Principles.

[2] Shareholder Rights Directive II - aims to promote effective stewardship and long-term investment decision making. It sets requirements in several areas, including transparency of engagement policies and investment strategies across the institutional investment community.

For example, water stress has been added as risks are both regional and multi-dimensional, and for some industries it is a material issue. Single-use plastics has risen up the agenda driven by consumers with implications for a number of industries. These issues may provide us with opportunities to work collaboratively with other investors.

5.3 The climate change section of the policy has been expanded to include extra detail on the systemic risk. As we are already implementing the specific points in the policy the wording has been changed to reflect this.

5.4 One area not included in the revised policy is Border to Coast's approach to exclusions. This is an area covered in the PRI reporting framework. We do not currently have an exclusion policy or any red-lines for investing and will need to undertake further work to assess investment implications and impact if we were to adopt any red-lines and/or exclusions and how this would affect Partner Funds' assets held outside the pool.

5.5 Impact investing is another area where our policy is currently silent: we need to increase the knowledge and understanding of impact investing across Border to Coast and the Partner Funds before we can set out our approach. This is likely to be an area of increasing political and public scrutiny in future years.

5.6 All changes are shown as track changes in the attached Appendix 1. The amendments to the RI policy are highlighted in the table below.

Section	**Page**	**Type of Change**	**Rationale**
Introduction	4	Addition / Clarification	Investment time horizon.
Integrating RI into investment decisions	5	Addition	Additional ESG issues: water stress, data privacy, single-use plastics, political lobbying.
Climate change	7/8	Addition Clarification	Extra detail on climate change as a systemic risk. Additional detail on risks and opportunities. Change from 'will therefore look to' to 'is'
Stewardship Use of proxy advisers	8/9	New sub-section	To comply with SRD II, need to name and describe use of proxy advisers.
Engagement	10 11	Restructuring Addition	Bullet points for engagement strands. Detail on engagement process – required by PRI & SRD II/FRC.
Escalation	11	Addition – new sub-section	Detail on options when initial engagement ineffective – required by PRI.
Due diligence and monitoring	11/12	Addition – new sub-section	Detail of audit of stewardship activities – required by PRI.
Communication and reporting	12	Clarification	Change from 'consider' to 'will also be reporting in line with the TCFD recommendations'.

5.7 The Corporate Governance & Voting Guidelines were expanded at the last review to reflect global corporate governance trends, not just UK best practice.

5.8 Following Robeco's evaluation this year a number of minor revisions were proposed to align the Voting Guidelines with the ICGN Global Governance Principles and the UK Corporate Governance Code. We want to avoid ambiguity within the Voting Guidelines, however best practice can vary across markets and jurisdictions; an example being Japan where the Company Law does not require the separation of the roles of chairman and CEO. This is an area for future consideration as to whether voting guidelines for some individual markets need developing. Amendments are highlighted in the table below and are a mixture of minor additions and clarifications to reflect global variations of market practice. All changes are shown as track changes in the attached Appendix 2.

Section	Page	Type of Change	Rationale
Company Boards – Composition and independence	5	Addition / Clarification	Change of "9 years" to "9-12 years". Clarification that this will also depend on market practice.
Leadership	6	Addition	Changed 'must' to 'should' to cover market practice outside the UK
Diversity	7	Clarification	Additional; wording to clarify stance.
Board Evaluation	7/8	Addition	Good practice for Board to disclose these evaluations.
Directors' remuneration Long-term incentives	9 9	Addition Addition	Transparency on pay ratios Encourage Executive Directors to hold stock to align interests with those of shareholders.
Directors' contracts	10	Addition	Limit termination benefits in-line with market best practice.
Audit	10	Addition	Publish audited financial statements ahead of shareholder voting deadline – to cover the Korean market where this does not always happen. Additional text to cover audit tender requirements for markets outside the UK.
Political donations	11	Clarification	Ensure money not being used to fund political parties
Lobbying	11	Clarification	Alignment of company and trade association values.

6 Climate change working party reflections

6.1 The working party was set up to improve the wider pool understanding of climate change and identify what we can change to improve investment outcomes. Much ground was covered over the six sessions with a fast, collective learning process with areas identified where further detailed work needs to be done.

6.2 A clear shared priority is to manage risk and opportunities from climate change. It was recognised that the only revisions to the climate change section in the Responsible Investment policy were for more detail to be included on climate change as a systemic risk and on the risks and opportunities . A number of key areas to work on and next steps include:

- Considering the impact of climate change risk on strategic asset allocation
- How to measure transition risk and the implications of setting targets
- The role private markets will play in managing transition risk
- Implications of an exclusion policy if engagement is ineffective
- Continue to embed and enhance analysis in the investment process
- Provide further education on the TCFD[3] for our Partner Funds
- Review our communication approach to managing climate change risk

6.3 Thank you to all representatives on the working party from our Partner Funds and Border to Coast and all the collective work that has been done. Understanding has improved amongst those participating in the group. Bulletins have been issued for each session and shared with all Partner Funds. It is however, more difficult to ensure that all Partner Funds are involved. Rather than continue the climate change working party the suggestion is to hold a Responsible Investment meeting for all Partner Funds to attend on a quarterly basis, thus keeping communciation lines open.

7 Sustainable Investment Goals

7.1 The UN Sustainable Development Goals (SDGs) are a collection of 17 global goals which were set by the United Nations in 2015 for the year 2030. They address issues such as poverty, hunger, health, education, climate change, gender equality, water and sanitation. Their design and intention are high level, and their aim is to facilitate social and economic change to achieve a better and more sustainable future for all. Over the last couple of years, investors have become more ‘SDG’ aware which has led to a surge in SDG-related investment product launches. For some investors it involves measuring portfolio exposure to companies whose businesses are SDG aligned. Others have gone down the route of impact investing, allocating to specific investment vehicles with impact or SDG-aligned objectives.

7.2 The SDGs were not designed as an investment framework, but rather as a set of environmental and social goals defined by governments. There are limitations for investors looking to report or invest in line with the SDGs. There is uncertainty as to how SDGs can be used as part of the investment process and given the high-level nature of the themes, considering SDGs at the stock level is difficult. They can however, present new and thematic investment opportunities. One way of incorporating the SDGs is to include them when thinking about engagement. The Local Authority Pension Fund Forum (LAPFF) has added SDG 6 (clean water and sanitation) and SDG 11 (sustainable cities and communities) into its engagement meetings. Robeco, our Voting & Engagement Partner also map all their engagement themes to the SDGs. The SDGs can help investors to measure more specific ESG outcomes.

7.3 The SDGs are not currently covered explicitly in the Responsible Investment Policy.

[3] 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-tcfd.org/publications/finalrecommendations-report/

8 Financial implications

8.1 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 colleagues through attendance at conferences and specific training events.

9 Risks

9.1 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.

9.2 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.

9.3 There is the risk of not being able to comply with the amendments made to the FCA Handbook on the back of the Shareholder Rights Directive.

10 Conclusion

10.1 The Joint Committee is asked to consider the recommendations made at section 2.

11 Author

Jane Firth, Head of Responsible Investment
7 November 2019

12 Supporting Documentation

Appendix 1: Draft Border to Coast Responsible Investment Policy

Appendix 2: Draft Border to Coast Corporate Governance & Voting Guidelines

Appendix 3: Gender Diversity Briefing Paper

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Responsible Investment Policy

Border to Coast Pensions Partnership

November 2019

Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10th Oct 2018
V0.3	2nd draft reflecting OOG amendments	CEO	19th Oct 2018
V0.4	1st draft presented to IC and OOG reflecting review by Robecco, ICGN Governance Principles, best in class asset owners and managers	CEO	26th September
V0.5	2nd draft reflecting OOG amendments	CEO	18th Oct 2019

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19th Oct 2018
Rachel Elwell	CEO	0.5	18th Oct 2019

3. Board Approval

Approved By	Version	Date
The Board	0.3	7th Nov 2018
The Board	0.5	5th Nov 2019

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 Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised 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 takes a long-term approach to investing and 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. 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.

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 Border to Coast UK Stewardship Code compliance statement. 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 includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

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

4. Skills and competency

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

5. Integrating RI into investment decisions

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

The factors considered are those which 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 and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress	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 Data privacy Bribery & corruption Single use plastics Political lobbying

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

5.5. Climate change

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. Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not always be appropriate.

Risks and opportunities can be presented through a number of ways and include:

- Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding
- Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging
- Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.
- Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.

Border to Coast is:

- Assessing its portfolios in relation to climate change risk where practicable.
- Incorporating climate considerations into the investment decision making process.
- Engaging 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)[1] recommendations.
- Encouraging companies to adapt their business strategy in alignment with a low carbon economy.

[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-tcfd.org/publications/finalrecommendations-report/

- Supporting climate related resolutions at company meetings which we consider reflect our RI policy.
- Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-filing 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.
- Monitoring and reviewing its fund managers in relation to climate change approach and policies.
- Participating in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

6. Stewardship

As a 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, we are a signatory to the UK Stewardship Code[2] and the UN Principles of Responsible Investment[3].

6.1. Voting

Voting rights are an asset and 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. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines. 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 Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

6.1.1 Use of proxy advisors

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. . A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's

[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.

Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility will be required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also reviews the services provided by Robeco on a regular basis.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. 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.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- 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 depositary.

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 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. Engagement

The best way to influence companies is through engagement; therefore, 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. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- 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 across a broad range of ESG themes.

- We 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 has been appointed.

- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[4] 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.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact principles or OECD guidelines for multinational enterprises. Both sets of principles, cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management

[4]UN 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.

can be held accountable for the issue. For all engagements, SMART engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues.

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.

6.2.1 Escalation Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.3 Due Diligence and monitoring procedure Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

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

8. Communication and reporting

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

We will also be voluntarily reporting in line with the TCFD recommendations.

9. Training and assistance

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.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2019

Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10th Oct 2018
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2. Approval and Sign Off

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

3. Board Approval

Approved By	Version	Date
The Board	0.3	7th Nov 2018

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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 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 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' role includes appointing 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. 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, 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.

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

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

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

• 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.

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

• We 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 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 cap companies, excluding the Chair, should consist of a majority of independent non-executive directors 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, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

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 nine 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.
- Serving on the board for over nine years.

- Having had a material business relationship with the company in the last three years.
- 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 shouldbe appointed, in-line with local corporate governance best practice, 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. 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 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 give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

In line with the government-backed Davies report and the HamtonAlexander review 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

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

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 to appropriately challenge management. 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. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. 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 are 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 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.

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. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to 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. 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. If restricted stock units are awarded under the plan, the vesting period should be at least three years 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. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

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 should not be 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. Termination benefits should be aligned with market best practice.

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. We 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. To ensure that the audit committee can fulfil its fiduciary role, it should 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. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

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. For the wider market, the external audit contract should be put out to tender at least every ten years. 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. 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, or there is insufficient disclosure that the money is not being used for political party donations, 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 requiring alignment of company and trade association values.

Shareholder rights

As a shareowner, Border 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. We will not support measures or proposals which will dilute or restrict our 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**

Border 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

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

Mergers and acquisitions

Border 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 Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be 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, we 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

Border 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. 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.

We 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.

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Gender Diversity

Diversity on boards and within an organisation is important to ensure that a company is sustainable. There is growing evidence that more diverse boards result in better performing companies, diverse teams make better decisions, and gender balanced companies attract and retain better talent. This leads to better investment returns and financial outcomes for investors. There is a link between better risk/return profiles and a diverse board.

This evidence led Border to Coast to become supporters of the 30% Club Investor Group. The group engages with companies to promote gender diversity. It has had successful meetings with companies that are now actively looking to increase female and ethnic diversity at board level.

Border to Coast believes that this matter can have a material financial impact on investment outcomes.

Background

A report by the Equality and Human Rights Commission (2008) suggested that at the then current rate of change it will take more than 70 years to achieve gender-balanced boardrooms in the UK's largest 100 companies.

The Davies Review was set up in 2010 as the UK Government looked to promote gender equality on the boards of listed companies. Davies reported that corporate boards perform better when they include the best people who come from a range of perspectives and backgrounds. Boards should be made up of competent high calibre individuals who together offer a mix of skills, experiences and backgrounds. Board appointments must always be made on merit, with the best qualified person getting the job; however, given the long record of women achieving the highest qualifications and leadership positions in many walks of life, the poor representation of women on boards, relative to their male counterparts, has raised questions about whether board recruitment is in practice based on skills, experience and performance.

Evidence suggests that companies with a strong female representation at board and top management level perform better than those without and that gender-diverse boards have a positive impact on performance. Boards make better decisions where a range of voices, drawing on different life experiences, can be heard. That mix of voices must include women.

The Davies Report (c. 2011) recommended:

- FTSE 100 should be aiming for a minimum of 25% female board member representation by 2015.
- Companies should set targets for 2013 and 2015.
- Companies should fully disclose the number of women sitting on their boards and working in their organisations.
- Investors should pay close attention to the recommendations from the report when considering re-appointments to a company board.

Davies Review 2015

- Women on boards was now at 25%; a huge improvement over the five-year period from the original report.
- Increased the target to 33% by 2020, with the support of the Government.
- Focus on stakeholders (which includes shareholders) working together to ensure increasing numbers of women represented at C-suite level.

Hampton Alexander Review

In February 2016, the government set up the Hampton Alexander review which focused on increased female representation on FTSE boards and women in senior executive positions, continuing the work of Lord Davies.

Hampton Alexander Review 2017

- Almost all FTSE 350 companies in scope provided data about the gender balance in their senior executive teams, a huge improvement.
- Still a long way to go to meet the 33% target of women in senior leadership positions by 2020.
- The number of women on FTSE 100 Executive Committees and their Direct Reports remains static.

The Davies Report recommended that executive search firms draw up a code of practice to address gender diversity in relation to board appointments at FTSE 350 companies. A code of conduct has been set up with 45 firms signed up to it.

Hampton Alexander 2018- Overall progress is encouraging:

- Number of women on FTSE boards >30% for first time
- Increase in women on FTSE 250
- Women on FTSE 100 Exec Committees is greater than 21%

However:

- 5 all-male boards in FTSE 100
- 45 all-male boards in FTSE 350
- 75 male-dominated boards in FTSE 350

A number of boards are dragging progress down by believing having one woman on the board is sufficient. The gap between companies working to improve gender diversity and those doing little is marked. Some companies are failing to make their businesses more resilient

The Davies Review and the Hampton Alexander Reviews (both Government backed) support the increase in female representation on boards with targets of 30% of women on boards by 2020. This is not a case of positive discrimination but of changing the way recruitment searches are conducted and encouraging companies to improve board composition. There are good female candidates out there but previous methods of recruitment, involving the 'old boys network', have not identified them.

We agree that it should always be the best candidate who gets the job.

For companies that are lagging, not making any effort to change, and not responding to engagement, the tool left to us as a shareholder is to exercise our voting rights by voting against the chair of the nomination committee.

Research on diversity

MSCI research demonstrated that companies with more women on boards delivered a 36% better return on equity. Credit Suisse research (2014) showed since 2005 companies with at least 1 female board member have averaged 14.1% vs 11.2% for all male boards. Since 2005, companies with at least 1 female director have returned a compound 3.7% above their male-only counterparts.

Cranfield University issued a report earlier this year – *The Female FTSE Board Report: Busy going nowhere with the female executive pipeline*, supported by Aviva and the Government Equalities Office. There has been good progress at FTSE companies; since October 2017 the percentage of women on FTSE 100 boards has increased from 27.7% to 29%, meaning that if the current pace continues it is possible to reach the targeted 33% by the end of 2020. There has been disappointing progress on the FTSE 250 boards. The percentage of women on the boards has risen from 22.8% to 23.7% and the number of companies with at least 33% women on their boards has increased from 53 in 2017 to 59 this year. There are only five women holding CEO positions and 19 holding CFO/FD positions. If we see FTSE 250 as the pipeline for FTSE 100 then this picture is not encouraging.

Sue Vinnicombe CBE, professor of women and leadership at Cranfield School of Management said, "FTSE 350 companies need to treat gender diversity as seriously as they treat sales, risk management, and innovation; otherwise nothing will change."

Asset managers & asset owners

Other large asset owners and asset managers are voting on gender diversity.

LGIM made a public statement. Their stance is to vote against board Chair (not Nom Com Chair) if less than 25% women on boards. They also want greater transparency on diversity across the organisation. In 2017 LGIM voted against 37 board chairs or chairs of nomination committees because of a lack of diversity, up from 11 in 2016. LGIM's annual Corporate Governance Report states: "We consider a company's workforce as important as its financial assets and expect that better policies and disclosures regarding diversity should be developed.'

BlackRock has governance as a continued priority with increased focus on diversity, seeing board diversity as an investment issue. As well as decision-making boards have an important role in setting the culture of a company. A diverse board is a visible commitment to employees, customers, and other key external partners, to leadership best practice. Diversity in leadership gives a company a competitive advantage.

USS has unveiled its voting policy for 2019 which includes strengthening the escalation approach for voting on director re-elections where a lack of diversity is evident. USS will vote against or abstain on the Chairman and/or members of the nomination committee if there is no woman on the Board and the company has not disclosed a timeframe for appointment. If no improvement, USS may vote against the Chairman of the Board in subsequent years.

LAPFF

LAPFF supports the principle of diversity and encourages boards to select new board members from a diverse pool of candidates; expecting companies to extend their search beyond the boards of other listed companies. LAPFF would like to see companies set their targets for the percentage of female representatives at the executive committee level and two levels below, as well as disclosure against these targets to measure progress against an established time frame. It is a supporter of the 30% Club.

In February 2014 LAPFF issued a Diversity Strategy which included adopting the following voting position:

- Vote against the Chairman of the Nomination Committee if there are no women on the Board
- Abstain on the Chairman of the Nomination Committee if female representation on the Board is less than 25%

More recently LAPFF put a paper to the Business Meeting on gender diversity at technology companies recommending engaging with the laggards in the sector.

Proxy advisers

Glass Lewis updated UK voting guidelines for 2019 state:

While Glass Lewis values the importance of board diversity, believing there are a number of benefits from having individuals with a variety of backgrounds serving on boards, we generally do not base voting recommendations solely on strict board diversity quotas. However, when a board fails to make progress towards best practice prevalent in the market and has not disclosed any cogent explanation or plan to address the issue, we may recommend voting against the nomination committee chair. Further, when boards of large companies subject to diversity policy disclosure requirements fail to nominate any women to the board or disclose a coherent board gender diversity policy to address this issue, we may recommend voting against the nomination committee chair on that basis alone.

Border to Coast Corporate Governance & Voting Guidelines

The revised Corporate Governance & Voting Guidelines contain a more detailed section on diversity to take account of voting across global markets. Specifically, for the UK reference is made to voting against nomination committee chairs where there are less than 30% of women on the board. The reason for this is that companies have had sufficient time to increase gender diversity. Ways left to influence and change behaviour include engagement and using voting rights.

The current Corporate Governance & Voting Guidelines has a section about diversity which states:

"Diversity

Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent. 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; a diversity policy should also be disclosed in the Annual Report.

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; a diversity policy should also be disclosed in the Annual Report."

The new policy exert is below:

"Diversity

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 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 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."

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Author: Jane Firth, Border to Coast Head of Responsible Investment, 17th December 2018

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Border to Coast Pensions Partnership Ltd

Border to Coast UK Listed Equity Fund ("the Fund")

Report for the Quarter Ended 30th September 2019
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 20 November 2019

Author: Andrew Stone, Border to Coast CRM team
Date: 11 November 2019

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Fund over Q3 2019.

2. The Committee is recommended to note this report.

Background

3. Border to Coast launched this internally managed Fund on 26th July 2018.

4. The Fund has a quality bias with a focus on companies that can generate long term sustainable growth and benefit from long term demographic trends. Border to Coast are long term investors and we expect low portfolio turnover.

5. Cyclical exposure will typically be focused on companies with an identifiable competitive advantage. The fund seeks to avoid poorer quality cyclical stocks other than when emerging from a deep market correction.

6. The majority of the Fund's performance is expected to arise from stock selection decisions.

Performance Objective

7. The Fund's objective is to outperform the FTSE All-Share Index ("the Benchmark") by 1% per annum over three year rolling periods.

8. The Fund aims to provide a benchmark tracking error of 1% to 3% depending on market conditions. This is deemed an appropriate risk profile in view of the performance target.

Market Value

9. The Fund's market value at the quarter end was £4.5bn.

Performance

10. Performance to the quarter end is shown below:

	Since inception 26/07/18 **% pa**	**Year** **%**	**Quarter** **%**
UK Listed Equity Fund	+3.0	+4.3	+1.2
FTSE UK All Share Index	+1.4	+2.7	+1.3
Actual Variance[1]	+1.6	+1.6	-0.1
Target Variance[2]	+1.0	+1.0	+0.3
Performance Relative to Target[3]	+0.6	+0.6	-0.4

Notes
1. Source: Northern Trust
2. Values do not always sum due to rounding
3. Performance is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance calculations.
4. Past performance is not an indication of future performance and the value of investments can fall as well as rise.

[1] Fund performance minus Benchmark performance
[2] Based on the Fund's Performance Objective
[3] Actual Variance minus Target Variance

Comments on Performance

11. Performance was below the Benchmark for Q3 2019 but continues to meet the Performance Objective over longer periods.

12. The underperformance over the quarter was largely due to sector asset allocation positions, with Consumer Services having the most notable impact. Several positive stock selection decisions were negated by underperformance within the Financials sector.

13. Performance has been strong and consistent since inception, with Q3 2019 being the first full quarter over which the Fund has underperformed the Benchmark.

14. The key drivers of performance since inception has been positive stock selection in Consumer Services, Industrials and Consumer Goods with a bias towards overseas earnings which have benefited from sterling depreciation as a result of Brexit uncertainty. The relative underweight to domestic-focused stocks has reduced over the last few months but the portfolio remains underweight UK exposure.

15. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Micro Focus (u/w)	0.00	0.17	0.13	Profit Warning taken poorly by the market
Glencore (u/w)	0.00	1.16	0.11	Operational issues and unresolved investigations
Cobham (o/w)	0.26	0.16	0.10	Deal with Advent International at a premium
Next (o/w)	0.92	0.34	0.06	Online sales outweighing declining instore sales.
Ultra Electronics (o/w)	0.33	0.06	0.05	Earnings ahead of expectations.
Prudential (o/w)	2.36	1.66	-0.12	Concerns over Asia growth slowdown
Fresnillo (o/w)	0.40	0.05	-0.10	Silver and gold output guidance disappointed
BHP Group PLC (o/w)	2.22	1.56	-0.09	Falling commodity prices from slowing global growth
Flutter Entertainment (u/w)	0.00	0.25	-0.06	US division delivered profit earlier than anticipated
Biotech Growth Trust (o/w)	0.43	0.01	-0.05	Healthcare reform weighs on the biotech sector

Source: Northern Trust & Border to Coast

Portfolio Structure

16. The most significant overweight and underweight allocations at a sector level, relative to the Benchmark, at the quarter end were as follows:

Common Stock Funds	+1.24
Industrials	+0.86
Basic Materials	+0.42
Oil & Gas	+0.26
Consumer Goods	+0.24
Financials	-2.28
Consumer Services	-2.11
Technology	-0.26
Utilities	-0.26
Telecommunications	-0.24

Source: Northern Trust

17. Notes:

- Common Stock Funds (+) – exposure to smaller companies and sector-specialist investments via collective vehicles.
- Industrials (+) – diversified sector benefiting from increased global investment capital expenditure.
- Basic Materials (+) – strong cash generation enabling significant debt reduction & greater shareholder distributions.
- Financials (-) – underweight in Banks due to UK debt concerns and Brexit uncertainty, partly offset by overweighting Insurers and Wealth Managers.
- Consumer Services (-) – high street expected to continue struggle. Structurally challenged by online competition.
- Technology (-) – relatively small sector following M&A activity - remaining stocks are of a mixed quality.

18. During the quarter, the largest individual transactions were:

- Standard Life Aberdeen PLC (+ £12.7m) – new holding at a net attractive entry valuation.
- Vodafone Group PLC (+ £11.3m) – closed underweight position following positive company updates.

Risk Profile

19. The risk profile of the Fund is monitored on an ex-post and ex-ante basis using data from the fund custodian, Northern Trust, for ex-post, and Bloomberg for ex-ante.

- The ex-post (backward looking) tracking error as of quarter end was 1.06%, just inside the risk appetite of 1% - 3%.
- The ex-ante (forward looking) tracking error as of quarter end was 0.80%, slightly under the risk appetite.
- The risk profile of the Fund is currently at the lower end of the target range due to the current level of uncertainty in the UK stock market as a result of Brexit and the impending general election. This positioning is likely to continue in the short term until there is more clarity around these issues.

Market Background

20. Global economic growth continued to slow during Q3, which may continue in the short term. Trade tensions between the US and China have had a global impact, including on Emerging Markets. The UK continues to be impacted by the uncertainty around Brexit.

21. Global inflation remains low, wage growth appears contained and interest rate expectations fallen. Concerns persist that there is insufficient room for use of monetary policy in the event of a recession.

22. There has been a continued appreciation in global equity markets (MSCI ACWI up 6.2% during Q2) with the Developed world (+4%) continuing to outperform Emerging Markets (-1%).

23. Markets were relatively strong in July but there was a pullback in August due to concerns regarding a global economic slowdown, which subsequently reversed in September.

24. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.

PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Ltd

Border to Coast Overseas Developed Equity Fund ("the Fund")

Report for the Quarter Ended 30th September 2019
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 20 November 2019

Author: Andrew Stone, Border to Coast CRM team
Date: 11 November 2019

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast UK Overseas Developed Equity Fund over Q3 2019.

2. The Committee is recommended to note this report.

Background

3. Border to Coast launched this internally managed Fund on 26th July 2018.

4. The Fund invests primarily in listed equities of companies from overseas developed countries which are included in the benchmark.

5. The Fund has a quality and growth bias with a focus on companies that can withstand economic and market volatility. Quality is defined as companies with an identifiable and sustainable competitive advantage, earnings visibility, balance sheet strength and strong management.

6. The Fund will not generally make active regional allocation decisions so most of the Fund's performance will arise from stock selection.

7. The majority of the Fund's performance is expected to arise from stock selection decisions.

Performance Objective

8. The Fund's objective is to outperform its Benchmark by at least 1% per annum over three year rolling periods. The Benchmark is a composite of the following regional indices:
    - 40% S&P 500 (US)
    - 30% FTSE Developed Europe ex UK
    - 20% FTSE Developed Asia Pacific ex Japan
    - 10 FTSE Japan

9. The Fund aims to provide a benchmark tracking error relative to the Benchmark of between 1% to 3% depending on market conditions. This is considered to be an appropriate risk profile in view of the performance target.

Market Value

10. The Fund's market value at the quarter end was £2.9bn.

Performance

11. Performance (net of fees) to the quarter end is shown below:

	Since inception 26/07/18 **% p.a.**	**Year** **%**	**Quarter** **%**
Overall Fund	7.5	6.6	2.8
Benchmark	7.4	6.8	2.8
Actual Variance[1]	+0.1	-0.2	0.0
Target Variance[2]	+1.0	+1.0	+0.3
Performance Relative to Target[3]	-0.9	-1.2	-0.3

[1] Fund performance minus Benchmark performance
[2] Based on the Fund's Performance Objective
[3] Actual Variance minus Target Variance

Notes:
1. Source: Northern Trust
2. Values do not always sum due to rounding
3. Performance is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance calculations.
4. Past performance is not an indication of future performance and the value of investments can fall as well as rise.

Comments on Performance

12. Overall Fund performance was broadly in line with the Benchmark over Q3 2019 and is slightly above Benchmark since inception.

13. The performance of the individual regional sleeves of the Fund over Q3 was as follows:

- US: Fund 4.7% vs Benchmark of 5.0%
- Japan: Fund 7.2% vs Benchmark of 6.6%
- Europe ex UK: Fund 1.9% vs Benchmark of 1.6%
- Asia Pacific ex Japan: Fund -1.6% vs Benchmark of -1.6%

14. On a sector basis, good stock selection added value to the Fund overall – but this was offset by a negative asset allocation impact. Stock selection in Consumer Services and Utilities had the largest positive impact. The Fund's underweight position in Utilities, the best performing sector over the quarter, detracted from performance.

15. On a country basis both allocation and selection were relatively flat, although a positive contribution to performance via stock selection in Japan, Korea and Belgium was offset by stock selection in the United States.

16. The Fund's performance is broadly in line with the Benchmark since inception. This relative performance will, however, improve by around 60bps when the Benchmark is updated to be net of withholding tax.

17. The top and bottom 5 contributors to performance over the quarter were:

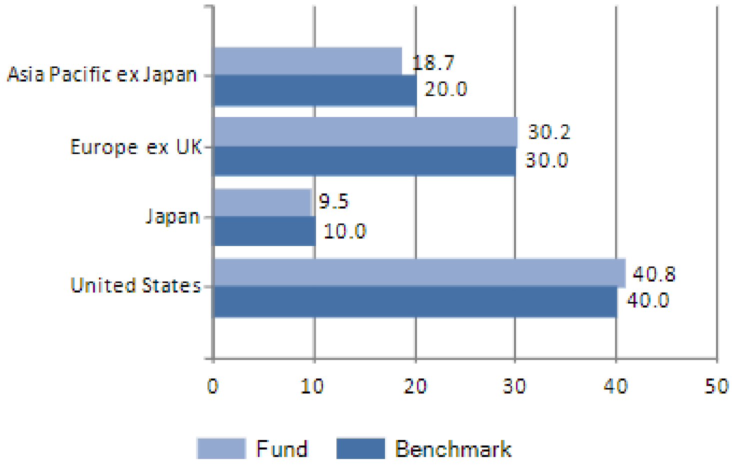
Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Alphabet A (o/w)	1.15	0.59	0.06	Strong results resulted in the shares recovering
Dollar General (o/w)	0.40	0.07	0.05	Sales growth and operational efficiencies
Zimmer Biomet (o/w)	0.28	0.05	0.03	New management team showing early benefits
Home Depot (o/w)	0.72	0.41	0.03	Positive housing sentiment boosted DIY business
Proctor & Gamble (o/w)	0.76	0.50	0.03	New product initiatives & increased marketing spend
Alphabet C (u/w)	0.00	0.60	-0.07	Strong results resulted in the shares recovering
Pfizer (o/w)	0.57	0.32	-0.05	Merger with Upjohn & Mylan poorly received
Tapestry (o/w) (*)	0.00	0.01	-0.05	Struggling "Kate Spade" brand has failed to deliver
Airbus (o/w)	0.85	0.33	-0.05	Adverse ruling from the World Trade Organisation
SAP (o/w)	0.77	0.52	-0.04	Slowdown in revenue growth & decrease in margins

(*) Initially overweight but position was sold down by the end of August.

Source: Northern Trust & Border to Coast

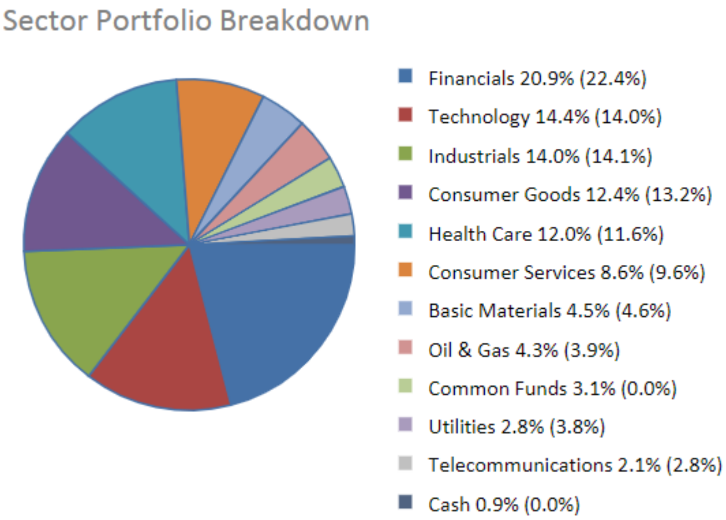
Portfolio Structure

18. The regional breakdown of the Fund and Benchmark, at the quarter end, is set out below:



Source: Northern Trust

19. The sector breakdown of the Fund and Benchmark, at the quarter end, was:



Source: Northern Trust

Note: The pie-chart shows the sector allocation of the Fund with the Benchmark sector allocation shown in brackets.

20. Notes:

- Common Stock Funds (+) exposure to smaller companies via collectives in US, Europe and, recently, Japan.
- Technology (+) long term structural growth drivers and change in software business models to ongoing subscription revenues.
- Health Care (+) – strong long-term fundamentals driven by demographic changes.
- Utilities (-) – pressure from increased capital investment, changes in government policy, increased regulatory risk and technological advances in renewable power are having an adverse impact on "traditional" power generation companies.

- Consumer Services (-) – concerns over consumer spending, structural shift to online retail and digital delivery of content away from cable.
- Financials (-) – significant underweight in Banks due to various concerns. Partly offset by overweight positions in Insurers and Wealth Managers.

21. During the quarter, the largest individual transactions were:
    - Vanguard Mid-Cap ETF (+£20.7m) – reducing the Fund's underweighting of smaller US companies.
    - Vanguard FTSE Japan (-£6.3m) – has been utilised for market exposure whilst taking profits from direct holdings.

Risk Profile

22. The risk profile of the Fund is monitored on an ex-post (forward looking) and ex-ante (backward looking) basis using data from the fund custodian, Northern Trust, for ex-post, and Bloomberg for ex-ante.

23. Both the ex-post and ex-ante tracking error as of quarter end are below target, standing at 0.63% and 0.61% respectively.

Market Background

24. Global economic growth continued to slow during Q3, which may continue in the short term. Trade tensions between the US and China have had a global impact, including on Emerging Markets. The UK continues to be impacted by the uncertainty around Brexit.

25. Global inflation remains low, wage growth appears contained and interest rate expectations fallen. Concerns persist that there is insufficient room for use of monetary policy in the event of a recession.

26. There has been a continued appreciation in global equity markets (MSCI ACWI up 6.2% during Q2) with the Developed world (+4%) continuing to outperform Emerging Markets (-1%).

27. Markets were relatively strong in July but there was a pullback in August due to concerns regarding a global economic slowdown, which subsequently reversed in September.

28. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.

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Agenda Item 7

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Agenda Item 8

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Agenda Item 9

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