

# Public Document Pack



**PENSIONS PARTNERSHIP**

**BCPP JOINT COMMITTEE**

## **AGENDA**

**Venue:** Aspire, Leeds

**Date:** Monday 9 March 2020

**Time:** 1.00 pm

### **Membership:**

#### **Chair:-**

Cllr Doug McMurdo Bedfordshire Pension Fund

#### **Vice Chair**

Cllr Tim Evans Surrey Pension Fund

#### **Membership:-**

Cllr Mel Worth	Cumbria Pension Fund
Cllr Mark Davinson	Durham Pension Fund
Cllr Richard Meredith	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Derek Kennedy	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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## Minutes of the Border to Coast Joint Committee

Wednesday 20 November 2019 - Aspire, 2 Infirmary Street, Leeds, LS1 2JP

### Present

#### Members

Councillor Doug McMurdo (Chair)  
Councillor David Coupe, Councillor Peter Coupland,  
Councillor Mark Davinson, Councillor Tim Evans, Councillor  
Patrick Mulligan, Councillor Bob Stevens, Councillor Mick  
Stowe, Councillor Anne Walsh, Councillor Jeff Watson and  
Councillor Mel Worth  
  
Deirdre Burnet and Nicholas Wirz (Scheme Member  
Representative and Substitute)

#### Border to Coast Ltd Representatives

Daniel Booth, Rachel Elwell, Jane Firth, Chris Hitchen and  
Fiona Miller

#### Fund Officers

Amanda Alderson, Ian Bainbridge, Alison Clark, Paul  
Cooper, Clare Gorman, George Graham, Neil Mason, Chris  
Norton, Nick Orton, Jo Ray, Gill Richards and Andy Watkins

#### Statutory Officer Representative(s)

Anna D'Alessandro and Gary Fielding

#### Apologies were received from

Councillor Eileen Leask, Councillor Richard Meredith,  
Councillor Eddie Strengeil and Councillor John Weighell

### 1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting.

Apologies were noted as above. The Chair requested that the Committee's best wishes be conveyed to Cllr Leask.

There were no declarations of interest.

### 2 MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON 11 SEPTEMBER 2019

RESOLVED – That the minutes of the meeting held on 11<sup>th</sup> September 2019 be agreed and signed by the Chair as a true record.

### 3 ELECTION OF COMMITTEE CHAIR AND VICE-CHAIR. NOMINATIONS TO BORDER TO COAST BOARD - IAN BAINBRIDGE

A report was submitted that set 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.

The results were confirmed as follows:

Chair of the Joint Committee:	Cllr D McMurdo (Bedfordshire)
Vice-Chair of the Joint Committee:	Cllr T Evans (Surrey)
NED nomination to the BCPP Board:	Cllr J Holtby (East Riding)
NED nomination to the BCPP Board:	Cllr J Watson (Northumberland)

It was noted that, if approved, Cllr Holtby would serve a two-year term on the BCPP Board and Cllr Watson a one-year term.

It was further noted that Cllr Watson had been nominated following a postal ballot.

RESOLVED – That the Committee note the results of the elections.

### 4 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE

A report was presented that detailed the position on the Committee's 2019/20 budget of £40,000.

The Committee noted that to the end of October 2019 the expenditure was £9,600. A breakdown of the expenditure incurred was detailed within the report.

The largest element of cost was in relation to legal work. The Committee was informed that further legal advice was in the process of being acquired in connection with the Border to Coast Compensation Policy.

Members were reminded that at the pre-meeting for the September meeting of the Joint Committee, the issue of appointing an investment consultant to advise the Joint Committee was discussed.

It was noted that should such a decision be taken, it would be appropriate for the cost of this to be met from the Joint Committee budget, provided it was for the benefit of all funds.

Concerns were raised about the remit and role of a consultant and the possibility of a conflict of advice from the consultant advising the Joint Committee and a consultant advising an individual pension fund.

It was agreed that the best way forward would be to appoint a consultant on an 'as and when' basis if there was a specific collective issue that could benefit from such an appointment and fall within the remit of the Joint Committee.

RESOLVED – That the report be noted.

## 5 RESPONSIBLE INVESTMENT POLICIES ANNUAL REVIEW 2019 - JANE FIRTH

A report was submitted that gave details of the annual review of the Responsible Investment Policy and the Corporate Governance and Voting Guidelines. The process for review would also include the participation of the Partner Funds to ensure that Border to Coast had a strong, unified voice.

The Committee noted that both policies had been reviewed by Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment (PRI) as benchmarks.

The main changes were to reflect the new Shareholder Rights Directive and to continue the clarification of Border to Coast's intentions on voting and alignment with the PRI. There were no recommendations for changes to underlying principles.

Feedback from the Climate Change Working Party had also been considered in the review and whilst the recommendation was for no substantive changes this year, there were areas recommended for further consideration which could lead to changes in future years. These were detailed within the report.

Rather than continue with the Climate Change Working Party it was suggested that a quarterly Responsible Investment meeting be held for the officers of all Partner Funds to attend to keep communication lines open.

Members were informed that the annual review and governance processes needed to be completed ahead of the 2020 proxy voting season. Partner Funds had been asked to complete their reviews by the end of 2019. Feedback had already been received from Pensions Officers but the Pension Committee review was still to take place. Given the timing of the General Election, there was a risk that some Committees could be delayed in their reviews, Border to Coast were working closely with Pensions Officers on this.

With regards to the Responsible Investment Policy, the Committee discussed the importance of consistency of the wording of the Policy, including the use of the words would, could and should. Several changes were suggested for clarification and also the correction of a typo.

Following Robeco's evaluation of the Corporate Governance and Voting Guidelines a number of minor revisions had been proposed to align the Voting Guidelines with the ICGN Global Governance Principles and the UK Corporate Governance Code; these were detailed within the report.

RESOLVED - That the Joint Committee:

- (i) Note the proposed revisions to the Responsible Investment Policy and Corporate Governance and Voting Guidelines.

- (ii) Supports taking the revised policies to the Partner Funds for comment and for them to consider adoption of the principles in their own Responsible Investment policies in line with industry best practice.

## **6 PERFORMANCE REPORT - DANIEL BOOTH**

The Committee considered the performance reports for the quarter ended 30<sup>th</sup> September 2019 for the Border to Coast's UK Listed Equity Fund and the Overseas Developed Equity Fund.

With regard to the UK Listed Equity Fund, Members were informed that performance was below the Benchmark for Q3 2019 but continued to meet the Performance Objective over longer periods.

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

The top and bottom 5 contributors were detailed within the report.

The Border to Coast Overseas Developed Equity Fund had performed broadly in line with the Benchmark over Q3 2019 and was slightly above the Benchmark since inception. The relative performance would improve by around 60bps when the Benchmark was updated to be net withholding tax.

RESOLVED – That the report be noted.

## **7 BORDER TO COAST ASSET TRANSFER PLANNING 2020-2023 - RACHEL ELWELL**

A report was submitted detailing Border to Coast's Asset Transfer Planning 2020-2023.

Members were reminded that it had previously been agreed with Partner Funds the process for working collectively and in partnership to identify the "building blocks" required to support Partner Funds' strategic asset allocations. This took into account Partner Funds' objectives, risk management, capacity and costs to propose both a prioritisation of capability build and a process to enable Partner Funds to participate in sub-fund design as described in Section 3 of the report.

For the 2020-2023 strategic planning round the design and prioritisation of funds to be launched had been re-assessed. This was based on Partner Fund feedback, resources available at Border to Coast and evolving understanding of the work involved. Key observations from the current indicative plan were included in the report.

Included as an appendix to the report was the current Management Information which had been developed to track progress for each Partner Fund.



This showed:

- expected transfers based on the Investment Strategy Statement as at 31<sup>st</sup> March 2018 and expected fund launch dates;
- best estimate of asset transfers based on discussions between Border to Coast and Pensions Officers; and
- actual AUM transferred to date.

RESOLVED – That the Committee:

- Note the report.
- Note the quarterly management information used to track pooling progress as set out in Section 5 of the report.

## **8 BORDER TO COAST ACS - MULTI ASSET CREDIT (MAC) OFFERING - DANIEL BOOTH**

D Booth presented an update on the progress made on the Border to Coast Multi-Asset Credit (MAC) fund. The report included detail on progress made to date on product design (including proposed use of internal management), Partner Funds' governance processes and areas of additional work undertaken.

The Committee were informed that the selection of the core manager had been confirmed; information regarding the selection process had been shared with officers and advisors.

Border to Coast would be offering MAC training for Pension Committees during Q4 2019. Some Pension Committees had already delegated authority to progress to officers, and Border to Coast were working with those Pensions Committees who had yet to give firm indications (subject to necessary conditions) during the Q1 2020 committee cycle.

In order to meet the target launch date of later in 2020, there was a need to issue the request for proposals for the specialist managers during early Q1 2020. This would require close liaison with Committees (where delegation had not already occurred) and Pensions Officers to ensure that Border to Coast were ready to do so.

RESOLVED – That the report be noted.

## **9 CEO REPORT - RACHEL ELWELL**

R Elwell presented her CEO report for the period since the last Joint Committee. The report contained:

- A progress update, including interactions with Partner Funds.
- A summary of risk positioning and performance of the launched funds.
- An update on fund launches, including a summary of the Global Equity Alpha transition and progress with the Investment Grade Credit. It was noted that a

more detailed update on the transition would be brought back to the next meeting of the Joint Committee.

- An update on progress from a corporate functions perspective and the expected outturn of the Operating Budget.

Members noted that political risk remained high; a matrix showing the results of a recent review by the Board was included within the report.

The implications of Partner Fund investment strategy triennial reviews, which were likely to change requirements and were leading to some uncertainty about when assets might transition, were also on the radar.

RESOLVED – That the report be noted.

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

There were no emerging matters to report.

The Committee were introduced to Ewan McCulloch, Border to Coast's newly appointed Head of Policy and Communications.

CHAIR



## Border to Coast Joint Committee

**Date of Meeting:** 9<sup>th</sup> March 2020

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

**Report Sponsor:** Governance Sub-Group

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

### 1.0 Executive Summary:

1.1 This report sets out the process by which the Joint Committee will select its Chair and Vice Chair at the June meeting and make a nomination to the Board of Border to Coast for a Non-Executive Director (NED) to sit on the Company Board

### 2.0 Recommendation:

2.1 It is recommended that:

- a) that the Joint Committee agrees the next meeting will conclude with elections and nominations as specified in the report,
- b) the process as set out in the report will be adopted,
- c) consideration be given to increasing the term for the Partner Fund Non Executive Director from two years to three.

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

3.1 The Chair and Vice-Chair roles are elected annually in accordance with the terms of the Inter Authority Agreement (IAA) and specifically in accordance with the constitution of the Joint Committee appended to that Agreement.

3.2 It should be noted that the IAA allows a Chair and Vice Chair to serve for “a further term” after the initial election. As both Chair and Vice Chair are in their second terms they are not eligible for re-election to the post that they currently hold.

3.3 The role of the Chair and Vice Chair is described in the role profile appended to this report as Appendix 1. The Vice Chair is required to shadow the Chair and to Chair any Joint Committee meetings that the Chair is unable to attend.

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

4.1 The Joint Committee has previously determined that it is beneficial to provide two candidates to Border to Coast Pensions Partnership Limited (the Company) to act as NEDs on the Board.

- 4.2 The Joint Committee has agreed the nomination for each NED would be for a term of two years. This was also agreed by the Company.
- 4.3 In 2019 two nominations for the role of Partner Fund NED were made. This was because the contract for one of the NEDs matured and the other resigned. To ensure that both contracts did not end in the same year, it was agreed that one NED appointment would be in place for one year (the unexpired term for the resigning NED) and the other for two years.
- 4.4 The current Partner Fund NEDs in post are:
- Councillor John Holtby, East Riding Pension Fund – Term end date 1<sup>st</sup> October 2021
  - Councillor Jeff Watson, Northumberland Pension Fund – Term end date 1<sup>st</sup> October 2020.
- 4.5 At the June Joint Committee meeting it is proposed that a nomination process is run for the NED appointment that expires in October 2020. Subject to the discussion point raised under section 5 below, any new appointment will be for a term of two years.
- 4.6 It is recognised that acting as a director of the Company will be a Disclosable Pecuniary Interest within the meaning of s31 Localism Act 2011. Depending on the circumstances and arrangements at each individual administering authority, it may then prove necessary to refer the matter to the individual authority's Standards Committee for a dispensation pursuant to s33 of the Localism Act. Ultimately, however, it is for candidates for the role of Partner Fund Nominated NED, to satisfy themselves that they are able to carry out such functions in relation to their local pensions committees as they deem desirable. A view on this should be taken by any potential candidate in consultation with the administering authority of their fund, before any nominations are put forward.
- 4.7 Following some concerns raised about the appropriateness of a Councillor being appointed to the role of NED and how a dispensation might be couched, legal advice was sought on behalf of the partner funds.
- 4.8 This advice provided support for the approach being adopted by the Partner Funds in the Border to Coast pool and provided guidance on how a possible dispensation under the Localism Act could be put in place to secure that.
- 4.9 Any nomination for the NED role is subject to approval by the Company Board and the candidate being assessed as being a fit and proper person by the Company under the FCA's Senior Managers and Certification Regime. Finally the appointment needs to be agreed by the shareholders.
- 4.10 The Role Profile for the Partner Fund Nominated NED, the FCA requirements and information regarding the selection procedure and appointment process used by the Company are annexed to this report. (Appendices 2, 3 and 4).
- 4.11 The successful candidate for the NED role is expected to stand down from the Joint Committee for the period in which they serve as a NED. A replacement Joint Committee member may be nominated by the affected fund.

## **5.0 Partner Fund Nominated Non Executive Director – Term on the Board**

- 5.1 As noted above it has been agreed by the Joint Committee and by the Company, that the Partner Fund Nominated NEDs term on the Board will, in the normal course of events, last for two years. It has also been previously agreed that each Partner Fund Nominated NED can only serve two consecutive terms. This therefore provides for a maximum period of four years.
- 5.2 Following discussion with those who have served as Partner Fund Nominated NEDs, reflecting on the level of training required and the time taken to go through the appointment process, the Joint Committee is asked to give consideration to extending the term of each appointment to three years, instead of two, for future appointments. The limit of two consecutive terms would remain in place. This would increase the maximum period to six years.
- 5.3 The initial rationale for a two-year term was that this would create rotation so that any one Partner Fund was not able to dominate the discussion at the Board. It should be noted however that the business discussed by the Board is about the Company's strategic direction and oversight rather than Partner Fund specific matters.
- 5.4 Whatever the Committee decides, it will need to be clear to candidates what the term of the appointment is prior to commencing the nomination processes this year. As noted above the Joint Committee is only nominating a candidate, ultimately the appointment is made by the shareholders on a recommendation from the Company, which would include the term for which the NEDs would serve.

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

- 6.1 The Joint Committee constitution simply provides for the members of the Joint Committee to select a Chair and Vice Chair. Practice to date has been to elect those roles outside of the Committee Meeting so the provisions of voting by show of hands do not apply and a secret ballot can be used. The normal process would be that the election to those posts and the nomination for the role of Partner Fund nominated NED should take place at the first Joint Committee meeting following the start of the new municipal year.
- 6.2 As noted above, it has been previously agreed that any member selected as NED should not continue to sit on the Joint Committee in a voting capacity. For this reason it is important that the ballot for the nomination to the NED role should be held first in order to determine eligibility for the Chair or Vice-Chair role. Any Joint Committee member at the meeting will continue to be eligible to vote at the meeting as they will not have succeeded a role on the Company Board until that nomination has been confirmed.
- 6.3 It is considered important that each Partner Fund is provided with the opportunity to be able to take part in the process, even if they are unable to attend the meeting in person. This could easily be accommodated by allowing a Joint Committee member to appoint a proxy to vote on their behalf.
- 6.4 It is therefore, considered appropriate to use an election process, which easily allows Partner Fund representatives to participate whether they are in attendance or not. It is believed that this can be reasonably achieved by using the single transferable vote (STV) system for the ballot. This was the method used in 2019.

- 6.5 Should a member representing one of the Partner Funds not be able to attend the meeting and the vote in person they will be provided with the opportunity to submit their ballot to the Committee secretariat, who will ensure that the vote is counted along with those cast in person.
- 6.6 Prior to the commencement of the ballot process all members wishing to become either Chair or Vice Chair or to be nominated as a NED of the Company will be asked to circulate a short supporting statement to all members of the Joint Committee (through the Secretariat) not less than 14 days before the proposed ballot date. For the NED role, Members are asked that the supporting statement addresses the key provisions of the Job Description as this will be subsequently used to support the approval process.
- 6.7 As the next Joint Committee meeting is on 16<sup>th</sup> June 2020, the process will need to commence before the end of May 2020. As with last year, the process will be co-ordinated by South Yorkshire Pensions Authority as part of their role of secretariat support to the Joint Committee.

## **7.0 Recommendation**

- 7.1 It is recommended that:
- a) that the Joint Committee agrees the next meeting will conclude with elections and nominations as specified in the report,
  - b) the process as set out in the report will be adopted,
  - c) consideration be given to increasing the term for the Partner Fund Non Executive Director from two years to three.

### **Report Author:**

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

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

**Appendix 1: Role Profile for the Chair and Vice Chair**

**Appendix 2: Role Profile for the Non Executive Director**

**Appendix 3: FCA and Companies Act requirements for Non Executive Directors**

**Appendix 4: Border to Coast Process for Partner Fund Nominated Non executive Directors**

### Role Profile for Chair and Vice-Chair

#### Overall

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

#### Specifically

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

#### Experience and Qualities

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

#### Capacity

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

#### Role of the Chair

##### 1. Chairing the Joint Committee Meeting

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

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

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

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

The Chair will have the following responsibilities:

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



### Role Profile

**Role Title:** Non-Executive Director

**Purpose of the role:**

To fully participate in ensuring the Board exercises effective leadership of and control over Border to Coast. To constructively challenge and contribute to the development of strategy, performance and the management of risk.

**About Border to Coast:**

Border to Coast Pensions Partnership is one of the largest pension pools in the UK. One of eight Local Government pools, Border to Coast oversees the investment of pensions assets. Our customers are at the heart of what we do; delivering long-term sustainable investment outcomes for our Partner Funds. We build long-term partnerships through working collegiately, in a sustainable and transparent way.

Border to Coast is an FCA regulated investment company (“Border to Coast Pensions Partnership Ltd”) which manages the assets of its twelve Partner Funds through both internal and external management within a number of investment vehicles, including an Authorised Contractual Scheme.

A non-executive director is a member of the board of directors of an organisation, but not a member of the executive management team. They are not employees of the company, instead they have a contract for services. However, they do have the same legal duties, responsibilities and potential liabilities as their executive counterparts.

**Reports to:** Chair of the Board

**Level:** n/a

**Function:** Board

**Team:** Board

**Direct Reports:** 0

**SMCR:** Notified NED

**Role line of defence:** n/a

**Role Dimensions**

**Budget Responsibility:** n/a

**Number of employees in area of responsibility:** 0

**Mandate:** Board remit

**Prescribed Responsibilities (SMF):** n/a

**Time Commitment:** Expected to be two to three days per month, with availability for meetings, induction and training as required

## Key Accountabilities

### Role Specific Accountabilities

- Support the Chair and Executive Team in instilling the appropriate culture, values and behaviours in the boardroom and beyond
- Provide independent oversight and scrutiny of Border to Coast including:
  - Provide an impartial and independent view of Border to Coast and its operations, removed from the day-to-day running of the business
  - Oversee the performance of the Board and Executive Team in meeting strategic objectives, including monitoring financial controls and risk management systems
- Draw on wider experience, in other organisations, to provide the Board and Border to Coast Executive Team with a breadth of understanding and insight, including:
  - Challenge and contribute to the development of the strategy of Border to Coast
  - Support the development of a suitable succession plan for the Board and CEO
  - Use specialist knowledge to input to decision making processes
- Promote a culture of responsible investment and stewardship throughout the organisation
- Commit to building a full understanding of Border to Coast, especially in those areas of the business with a significant level of risk
- Take time to understand various stakeholder needs and ensure these are addressed at Board level
- Chair Committees of Border to Coast (Independent NEDs; less likely for Partner Fund NEDs)

## Skills, Knowledge and Experience

### Skills, Knowledge and Qualifications

#### Essential

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

#### Desirable

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

#### Additional

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

### Experience

#### Essential

- Extensive experience of working as a non-executive director/Local Authority Committee Chair either within a public sector environment or FCA regulated business
- Excellent understanding of working across multiple stakeholders
- Ability to satisfy fitness and propriety test as a Notified NED under the Senior Manager & Certification Regime (SM&CR) and to continue to satisfy test requirements and comply with FCA Conduct Rules
- 

#### Desirable

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

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

<b>Version</b>	
<b>Version No. and Date</b>	1, 10/05/19
<b>Profile created/updated by</b>	Nora Burns, Head of Legal Peri Thomas, Head of HR Paul Birch, HR Project Manager
<b>Profile reviewed by people manager (state name &amp; role)</b>	Rachel Elwell, CEO
<b>Profile reviewed by HR (state name &amp; role)</b>	Paul Birch, HR Project Manager

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

#### FCA Requirements

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

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

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

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

## The Companies Act Requirements

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

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

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

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

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

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

#### Pre-Selection

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

#### Post-Selection

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

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

### **Time Commitment and Remuneration**

9. The Board also asked that further information be provided regarding the time commitment involved in the role. The Board is currently scheduled to meet six times a year, with Committee meetings 4-5 times a year in addition. Telephone meetings may occur where urgent matters are under consideration. The full meetings usually last about 5 hours; telephone meetings are shorter and are held to deal with urgent business. Typically meetings are held in the Company's office in Leeds. Papers are circulated a week before the meeting and reading time is required.
10. It is emphasised that individuals will sit as directors of the Company and provide expert input as such based on their personal knowledge and experience. They are not holding office as representatives of individual funds and will be expected to act in their view of the best interests of the Company.
11. Remuneration is approved by Shareholders on recommendation of the Remuneration Committee. The current level has been agreed at £15,000 pa,

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## Border to Coast Joint Committee

**Date of Meeting:** 9<sup>th</sup> March 2020

**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 current budget position for 2019/20
- Agree a budget for 2020/21 of £40,000

### 2.0 2019/20 Joint Committee Budget

2.1 At the Joint Committee meeting on 11<sup>th</sup> 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 may be 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 partner 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 February 2020 total expenditure committed against the budget of £40,000 was £14,900. A breakdown of the expenditure incurred and committed is shown below;

Secretariat Support to Joint Committee - £1,600

Catering and Room Hire for Joint Committee - £2,700

Legal Advice - £10,000

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 two pieces of legal work.

- Advice from Counsel in connection with the appointment of a Partner Fund Nominated Non Executive Director.
- External legal advice in connection with the Border to Coast Compensation Policy, following an error. This was discussed at the informal meeting of shareholders on 4<sup>th</sup> June 2019. The advice is being taken on behalf of the Shareholders and will relate to a supplemental agreement to the main shareholder agreement. It has estimated this advice should cost around £5,000 and this is included in the figures above.

2.9 No other significant items of expenditure are forecast before the year end.

### **3.0 Proposed Budget for 2020/21**

3.1 It is proposed that the budget for 2020/21 should be retained £40,000.

3.2 Whilst the current spending in 2019/20 would suggest a cut in the budget could be considered, the Joint Committee is still in its early days of operation and future spending requirements may still be identified.

### **4.0 Conclusion**

4.1 The current expenditure is within the Joint Committee Budget.

4.2 It is proposed that the budget for 2020/21 is retained at the current level of £40,000.

### **Report Author:**

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

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

N/A



**Date of Meeting:** 9<sup>th</sup> March 2020

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

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

## **1.0 Executive summary**

1.1 The previously agreed dates of the BCPP Joint Committee (JC) meetings for the next two years are shown in paragraph 3.3 of this report. Two changes have been made at the request of the BCPP Ltd directors, which are highlighted in paragraph 3.3 of this report. JC members are asked to note the changes.

1.2 The JC's key responsibility is to exercise oversight of the investment performance and direction of BCPP Ltd, and the pattern for meeting dates established reflects the requirement for quarterly monitoring.

1.3 Following the established pattern, the **proposed** dates for future meetings of the BCPP JC for the 2022/23 municipal year are:

- Tuesday 14 June 2022;
- Tuesday 27 September 2022;
- Tuesday 22 November 2022; and
- Tuesday 7 March 2023.

1.4 The proposed dates have been agreed with the BCPP JC Chair and Vice Chair.

## **2.0 Recommendation**

2.1 That members note:

- the proposed future JC meeting dates set out in paragraph 1.3 above; and
- the changes to previously agreed dates, as highlighted in paragraph 3.3 of this report.

### 3.0 BCPP Joint Committee dates

3.1 At the meeting of the JC held on 4<sup>th</sup> June 2019, future BCPP JC meeting dates to the end of the 2021/22 municipal year were agreed. These dates followed the quarterly pattern established a year earlier to enable the JC to exercise oversight of the investment performance and direction of BCPP Ltd.

3.2 The pattern established:

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

3.3 Since the dates were set at the 4<sup>th</sup> June 2019 meeting, at the request of the BCPP Ltd directors two changes have been made as shown. Updated future JC dates are:

<b>Dates</b>	<b>Previously</b>	<b>Venue</b>	<b>Review performance for quarter ended</b>
Tuesday 16 June 2020		Leeds (Aspire)	31 March 2020
Thursday 1 October 2020 (immediately prior to BCPP Conference)	29 September	BCPP offices	30 June 2020
Tuesday 24 November 2020		BCPP offices	30 September 2020
Tuesday 9 March 2021		BCPP offices	31 December 2020
Tuesday 15 June 2021	8 June	BCPP offices	31 March 2021
Tuesday 28 September 2021		BCPP offices	30 June 2021
Tuesday 23 November 2021		BCPP offices	30 September 2021
Tuesday 8 March 2022		BCPP offices	31 December 2021
----- Dates proposed at this meeting -----			
Tuesday 14 June 2022		BCPP offices	31 March 2022
Tuesday 27 September 2022		BCPP offices	30 June 2022
Tuesday 22 November 2022		BCPP offices	30 September 2022
Tuesday 7 March 2023		BCPP offices	31 December 2022

#### 4.0 Other relevant dates for BCPP JC members

- 4.1 BCPP Ltd holds two annual meetings which are also of relevance to BCPP JC members, namely the Annual Investment Conference and the Annual General Meeting.
- 4.2 The Annual Investment Conference is for BCPP Ltd's **clients**. The last Conference was held on 10<sup>th</sup> and 11<sup>th</sup> October 2019 and the next is planned for **1<sup>st</sup> and 2<sup>nd</sup> October 2020**, with early-October timing likely to be followed going forward.
- 4.3 The first Annual General Meeting (AGM) for BCPP Ltd's **shareholders** was held on 18<sup>th</sup> July 2019 with mid-July timing established going forward. The next planned AGM date is **15<sup>th</sup> July 2020**.
- 4.4 To date, meetings of the Chairs of the BCPP Local Pension Boards have been held on 8<sup>th</sup> November 2018, 22<sup>nd</sup> May 2019 and 10<sup>th</sup> October 2019. The pattern of two meetings per year has been established, with one held during the BCPP Investment Conference.

#### 5.0 Report author:

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

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## Border to Coast Pensions Partnership Joint Committee

**Date of Meeting:** 9 March 2020

**Report Title:** 2019 Partner Fund feedback survey

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

### 1 Executive Summary

- 1.1 As part of our commitment to delivering our vision and purpose, we conduct an annual survey of our Partner Funds. This allows us to understand our performance to date and any emerging issues.
- 1.2 This is the second year that we have undertaken a review. A number of actions were taken following the 2018 review to address the feedback provided at that stage as set out in section 3.
- 1.3 Responding to feedback, the 2019 survey covered a wider range of audiences – it now covers committee chairs, s151 officers, pension officers and independent advisors.
- 1.4 Overall the feedback from the survey has been very positive. 46% of respondents were very satisfied; and 49% were somewhat satisfied. With over 100 verbatim comments, there was also a rich insight to give colour to the survey scores.
- 1.5 While there was consistent positive praise for the progress made to date – and the reputation we are building – there was nonetheless a number of suggestions on areas for improvement/ issues to be mindful of. A series of actions to address these are outlined in section 4.

### 2 Recommendations

- 2.1 The Committee is asked to note the results of the survey and provide comment on the recommended actions to address the feedback.

### 3 Response to the 2018 Survey

- 3.1 The 2018 survey was broadly positive and included some very useful qualitative responses and guidance on how we could build the organisation and the relationship between Partner Funds and Border to Coast.
- 3.2 The main areas of feedback in 2018 and progress against these during 2019 were:

Area	Feedback	Comments	Progress
Progress	100% good	Running to time is	<ul style="list-style-type: none"> <li>• Priorities were discussed as part of setting</li> </ul>

	or better	less important than quality	<p>the 2019-2021 strategic plan and associated resourcing requirements.</p> <ul style="list-style-type: none"> <li>Continuing open discussion with officers and committees (Joint Committee and individual pension committees)</li> </ul>
Responsiveness to questions / concerns	75% very / extremely 25% somewhat / not so much	Difference between responding and understanding Is there enough information to enable us to review and make decisions?	<ul style="list-style-type: none"> <li>Lessons learned sessions held on transitions and other major pieces of work</li> <li>Partner Fund queries are reviewed regularly by the Executive to understand themes</li> <li>Other ways to bring feedback into decision making process (e.g. Survey Monkey)</li> <li>Agree up front “Necessary Conditions” for each launch and keep Partner Funds up to date on progress in satisfying these</li> </ul>
Communication	83% good or better 17% OK or worse	More help for officers to prepare for Committees Performance info inadequate All data shared at same time? Careful lack of data does not imply lack of trust	<ul style="list-style-type: none"> <li>Significant development work on sharing of information via the data room</li> <li>Performance reporting reliability has improved following early teething problems</li> <li>Design of performance reporting is undertaken earlier in the process</li> <li>Clear signposting on upcoming areas for discussion including Governance Planner</li> <li>Agendas for all workshops in 2019 and 2020 circulated in advance</li> </ul>
Sub-fund design	67% very satisfied 33% we need more / total re-write	Number of sub-funds in each class is “unsatisfactory and unsustainable” What is strategic and what is implementation?	<ul style="list-style-type: none"> <li>Tried and tested approach to development of sub-funds now embedded</li> <li>Approach to Fixed Income design reflected feedback as considered whole asset class</li> <li>Good engagement with officers; engagement with advisors continues to be an area for further development.</li> </ul>
Building partnerships	90% good 10% not so well	What does partnership mean?	<ul style="list-style-type: none"> <li>Ongoing discussion with Partner Funds including via Joint Committee</li> <li>Joint work on MHCLG consultation responses</li> <li>Facilitation of other opportunities for joint working across Border to Coast</li> </ul>
Best practice examples	-	Assurance on governance / asset management that we are following best practice Use other techniques in meetings to mitigate effect of loudest voice	<ul style="list-style-type: none"> <li>Work with national audit leads and other pools to facilitate discussions with LGPS auditors including positive outcome on AAF</li> <li>Climate change working party using different approach to addressing challenges</li> <li>Building RI collaborations with other large institutional investors to leverage impact</li> <li>More use of facilitation tools in workshops</li> <li>Developed CEO / COO / CRO pool groups to share practice across and between pools</li> </ul>
Overall satisfaction	92% satisfied 8% sitting on the fence	Right pace and right engagement key ESG issues need more focus Communication key Celebrate success!	<ul style="list-style-type: none"> <li>Climate change working party, stewardship code, examples of collaborating with other large asset owners</li> <li>Developed RI strategy and became signatory to UN PRI</li> </ul>

## 4 Response to the 2019 Survey

4.1 The expansion of the survey to include chairs and independent advisors alongside officers gave us rich insight. As a new organisation, with an emphasis on partnership, collaboration and sustainability, this feedback is invaluable.



4.2 Overall the feedback from the survey has been very positive. 46% of respondents were very satisfied; and 49% were somewhat satisfied. However, we also recognise there remains room for improvement. Some of the focus areas raised include:

- Engagement – how we manage communication and engagement with Partner Funds. Some chairs expressed a desire for more direct engagement with Border to Coast, particularly reflecting on the engagement of their committees. We also had practical feedback on areas such as the data room and helping to support advisors’ awareness of developments.
- Importance of culture & delivery – a continuing desire for Border to Coast to understand the different ethos of each Partner Fund.
- Maintaining a partnership approach – concern that each Partner Funds’ voice be heard. And an awareness of the risk of a divergence in Partner Fund requirements, with the associated importance of a pragmatic approach to developing joint solutions.
- Future support – understandably, most comments were focussed on delivery to date and immediate next steps. However, there were also signs of consideration of future developments including both how to make the most of our collective voice and how Border to Coast could become a more strategic investment partner for Partner Funds.

4.3 The main areas of feedback in the 2019 survey were:

Area	Feedback	Comments
Progress	95% good or better	Quality and not pace is important
Responsiveness to questions / concerns	43% very 57% somewhat	Continue to develop two way engagement Strong feedback from officer group, but consider how to support Chairs and Advisors
Communication	Overall 77% satisfied / very satisfied; 20% neutral. Areas for development: data room and conference calls	Acknowledgement this is a very important area, easier said than done given the diversity of stakeholders Make the data room easier to use and navigate Consider webinars and actively encourage all to speak
Building partnerships	Overall 75% well or better Areas for development: input to investment strategy and facilitation of oversight	Positive praise, recognising need for continued collaboration and compromise Particular recognition of work on RI and building investment capabilities
Strategic Risks	-	Reasonable alignment of views on relative prioritisation of risks, which are discussed more in the strategic plan and annual report and accounts
Overall satisfaction	95% satisfied or very satisfied 5% sitting on the fence	Very positive progress but no room for complacency Balancing need for compromise with openness, flexibility and clarity of communication Maintain focus on governance, cost sharing and ensuring all Partner Funds are able to have a voice Collaboration between Partner Funds is key

4.4 The following actions are proposed in response to the 2019 survey:

Feedback	Actions
Workshop recording availability	Using WebEx, share recordings of workshops for future reference
Clear & accurate workshop communications	Diary invites issued at least 1 month in advance with high level agenda topics. Specific topics agreed 1 month in advance. All relevant consultants invited. Pre-meeting material issued three days in advance.
Adviser/Consultant	Agree approach with Partner Funds and take action (e.g. establish regular

communication	adviser update calls; provide support in ensuring advisers are involved early).
On-line accessibility (Data Room)	Improve user experience of Data Room to assist in navigation. Work with Partner Funds to understand the current barriers to ease of use. Agree and implement further actions.
Committee input	Agree communications plan with officers and chairs to enhance joint relationships. Ensure senior Border to Coast colleagues are visible to committees. Utilise internal resource appropriately at Partner Fund meetings. Work with officers to ensure pre-meeting information reaches the committee.
Responsible Investment Strategy	Use Border to Coast's size to influence on RI principles. RI communications plan to raise awareness of what we are doing.
Fund Manager access	Implement agreed Memorandums of Understanding on access to fund managers including Border to Coast personnel
Collaboration	Work with Partner Funds to agree longer-term areas of action for Border to Coast to undertake in becoming a strategic partner. Discussion with Partner Funds on the design / prioritisation phase to further develop approach to prioritisation.
Collaboration between Partner Funds	Work with Partner Funds to improve understanding of expectations of Border to Coast and how we can collectively work together in this area
Fund Launches	Continue to hold 'lessons learned' sessions on transitions and other major pieces of work
Tax Policy	Set up a session on the impact tax policy has on the long term investment outcomes, and what action is required.

## 5 Risks

- 5.1 As a customer owned, customer focussed organisation, it is important that Border to Coast understands, and responds, to the feedback provided by its Partner Funds. If this paper, and its associated action plan, is not accepted, there is a risk that the firm fails to deliver on behalf of its Partner Funds.

## 6 Conclusion

- 6.1 The Committee is asked to note the results of the survey and provide comment on the recommended actions to address the feedback.

## 7 Paper Author

Ewan McCulloch, Head of Policy & Communications  
28 February 2020



## Border to Coast Pensions Partnership Joint Committee

**Date of Meeting:** 9 March 2020

**Report Title:** Governance Charter Update

**Report Sponsor:** Rachel Elwell, CEO

### 1 Executive Summary

- 1.1 The Governance Charter is a document setting out a summary of the governance arrangements for Border to Coast and is subject to annual review.
- 1.2 A summary of the proposed changes following review are included in Section 3 and a track-changed version is included in Appendix to this report. They primarily reflect changes as a result of the new FCA Senior Manager and Certification Regime and the 2020-2022 Strategic Plan. Scheme membership representation on the Committee is also now reflected.
- 1.3 The Board reviewed the proposed changes at its meeting on 25 February and are happy to recommend the revised Charter for approval by the Joint Committee.

### 2 Recommendations

- 2.1 The Committee is asked to approve the proposed changes to the Governance Charter for publication on the Border to Coast and Joint Committee websites.

### 3 The Governance Charter

- 3.1 As part of establishing Border to Coast, the Partner Funds spent significant time in considering an appropriate governance model. Due to the number of stakeholders and the need for public accountability, the model is complex.
- 3.2 Due to this relative complexity involving many different stakeholders, it is important that we are able to have a shared understanding of how decisions are made and how progress and performance is overseen in order to achieve the pooling objectives effectively and efficiently.
- 3.3 Governance is also a significant area of focus for Central Government (MHCLG) and the Scheme Advisory Board.
- 3.4 To support understanding in this area, during 2018 a "Governance Charter" setting out roles and responsibilities across the Pool was jointly developed by Border to Coast and Partner Fund Officers. The aim was to have a public document available for all stakeholders to understand their role in the governance of Border to Coast.

- 3.5 Following further development and review at the March 2019 Joint Committee meeting (and equivalent Q1 2019 Border to Coast Board meeting), the Governance Charter was approved for inclusion on both the Border to Coast and Joint Committee websites.
- 3.6 The Charter has been reviewed and updated for the following points:
- 3.6.1 An update given the increase in the number of Board Committees to include the Private Markets Committee and a split of the Audit & Risk Committee.
  - 3.6.2 An update to the strategy section to reflect the 2020-2022 Strategic Plan.
  - 3.6.3 Scheme membership representation on the Joint Committee.
  - 3.6.4 Reflection of the move to bi-monthly Officers Operations Group meetings, which is a result of holding specific workshops to discuss design and other significant aspects, reducing the need to hold monthly general business meetings.
  - 3.6.5 Updated chart reflecting new Border to Coast committees.
  - 3.6.6 General updating to reflect the changes following the implementation of SM&CR.

#### **4 Risks**

- 4.1 The Governance Charter should provide external stakeholders with an up-to-date view of the management of governance within the organisation and the interaction with external parties. As the governance changes the Charter must reflect this. Without these changes stakeholders cannot be confident in their ability to hold the firm to account.

#### **5 Conclusion**

- 5.1 It is good governance to review these documents on an annual basis and the Joint Committee is recommended to approve the changes contained in the documents.

#### **6 Author**

Femi Sobo-Allen, Border to Coast Deputy Company Secretary  
28 February 2020

#### **Supporting Documentation**

Appendix – Revised Governance Charter marked to show change

## Governance Charter

### Border to Coast Pensions Partnership



March 20~~2019~~

## Document Control

### Version and Review History

Version no.	Version Description	Approver	Date
V1.0	Approved document following governance	Rachel Elwell, CEO	13 <sup>th</sup> March 2019
<u>V1.1</u>	<u>Document submitted to ExCo</u>	<u>Femi Sobo-Allen, Deputy CoSec</u>	<u>December 2019</u>
<u>V1.2</u>	<u>Document submitted to the Board</u>	<u>Rachel Elwell, CEO</u>	<u>16<sup>th</sup> Feb 2020</u>
<u>V1.3</u>	<u>Document submitted to the JC</u>	<u>Rachel Elwell, CEO</u>	<u>28<sup>th</sup> Feb 2020</u>
<u>V2.0</u>	<u>Approved document following governance</u>	<u>Rachel Elwell, CEO</u>	<u>[X<sup>th</sup> Mar 2020]</u>

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### Governance Approvals

Approved By	Version	Date
S151s	<u>1.20-6</u>	<u>27/602/2020+8</u>
The Board	<u>01.23</u>	<u>2427/502/2020+8</u>
The Joint Committee	<u>01.37</u>	<u>14/09/03/2020+9</u>

### Key Dates

Event	Date
Effective Date	31/03/20 <u>20+9</u>
Next Review Date	31/03/202 <u>10</u>

### Key Roles – Border to Coast Pensions Partnership Ltd

Stakeholder	Role	Status
Head of Legal and Company Secretary	Document owner responsible for the management and amendment process, along with ensuring implementation of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Board	Approve the framework and any material alteration made thereafter	Approver
Border to Coast Staff	Informed of framework and manage delivery in practice	Informed

### Key Roles – Border to Coast Partner Funds

Stakeholder	Role	Status
Officers Operations Group and Section 151 officers	Review ongoing drafts to ensure completeness	Reviewer
Joint Committee	Approve the framework and any material alteration made thereafter	Approver
Partner Fund Pension Committees	Approve the framework and any material alteration made thereafter	Approver

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# 1. Introduction

Border to Coast Pensions Partnership (“the Pool”) has been formed to enable the pooling of assets of **twelve** Administering Authorities of the Local Government Pension Scheme (“Partner Funds”). In order to effect the pooling, the twelve Partner Funds have established an FCA-regulated operator of collective investment vehicles, which is also appointed as the Asset Manager for those vehicles. This company is Border to Coast Pensions Partnership Ltd (“Border to Coast”).

Border to Coast is wholly owned by the Partner Funds who are its customers and also shareholders.

The guiding principles set out by the Partner Funds have been reflected in the governance structure:

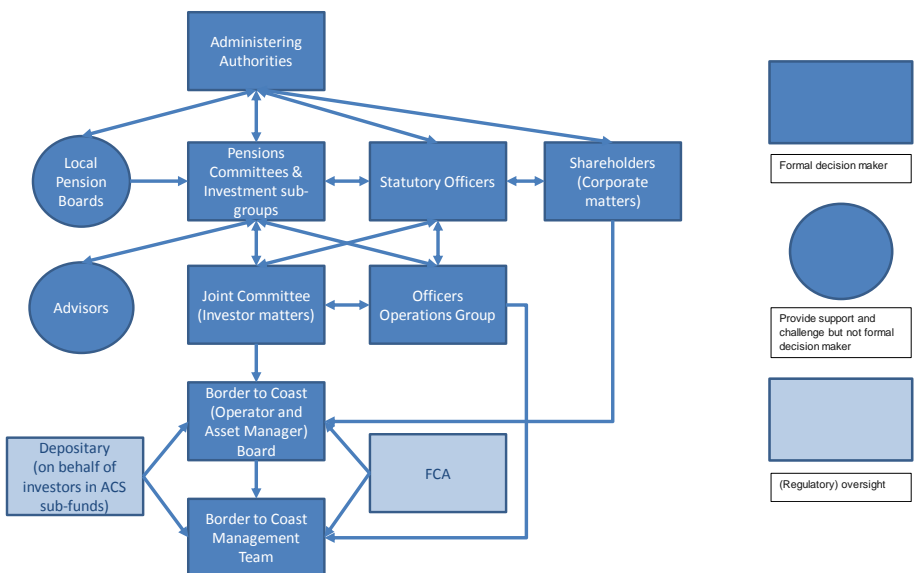
1. Meeting central Government’s aims for governance, responsible investing, infrastructure and value for money
2. One fund, one vote
3. Funds retaining governance role and ownership of asset allocation
4. Generating improved net-of-fees risk adjusted performance
5. Border to Coast internal management capability
6. Improved resilience and capacity over existing structures
7. A shared team in one location

Border to Coast’s investment performance and capability is overseen by the Partner Funds on a day to day basis by the Senior Fund Officers and formally on a quarterly basis by the Joint Committee, which is constituted of elected member representatives from each of the Partner Funds.

Border to Coast’s performance as a company is overseen by shareholder representatives from the twelve Administering Authorities of the Partner Funds both on an ongoing basis and formally once a year at its AGM.

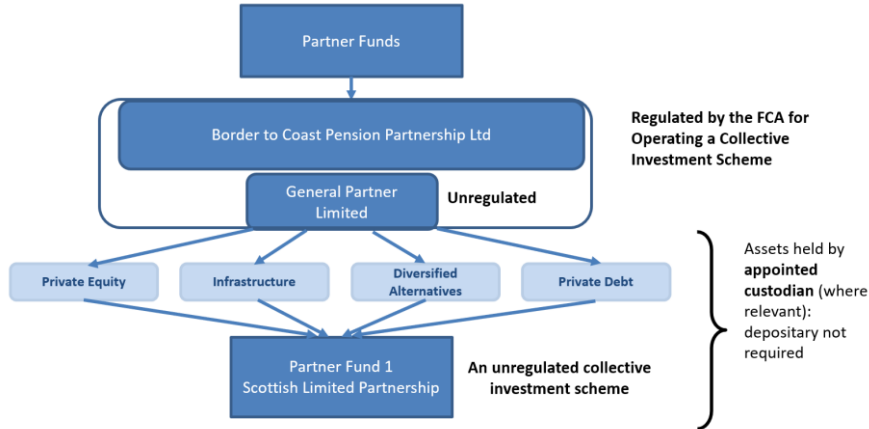
The Partner Funds and Border to Coast work collaboratively to build the investment capabilities required to ensure that the Partner Funds are able to efficiently and effectively deliver their Strategic Asset Allocations in line with the guiding principles. However, in order to hold Border to Coast to account and to meet FCA requirements for a regulated asset manager, the governance structure is designed to ensure sufficient independence between the Partner Funds and Border to Coast during implementation and ongoing management of the sub-funds.

The diagram below shows the governance structure in place to ensure that appropriate oversight of Border to Coast is carried out both from a shareholder and an investor perspective.





It should be noted that the oversight of the Border to Coast private market structure differs from that of the Border to Coast Authorised Contractual Scheme (“ACS”) as set out in the diagram below (we have chosen to show one of the twelve GP/LP structures for simplicity):



## 1.1 Purpose of this Document

This “**Governance Charter**” is intended as a summary of the governance arrangements for the Pool, including capturing the structure and roles, responsibilities and authority of the following in relation to Border to Coast (as operator and asset manager):

- The Administering Authorities (section 3)
- The Pensions Committees (section 3)
- Advisors to Pensions Committees (section 3.1)
- Local Pension Boards (section 3.1)
- The Joint Committee (section 3.1)
- Officers Operations Group (section 3.1)
- Statutory Officers (including s151s and monitoring officers) (section 3.1)
- Shareholders (section 4)
- Border to Coast Board (section 5.1)
- Border to Coast Management Team (sections 3.2, 4.1 and 5.2)
- The FCA (section 5.3)
- The Depositary (in respect of regulated collective vehicles such as the ACS) (section 5.4)

The detailed provisions of the governance structure can be found in the following core documents:

- Border to Coast’s Articles of Association;
- the Shareholders’ Agreement; and
- the Inter Authority Agreement (establishing the BCPP Joint Committee and stating its Terms of Reference and Constitution and the Terms of Reference for the Officer Operations Group).

Additional provisions specific to particular investment sub-funds can be found in each sub-fund’s governing documentation (e.g. the ACS prospectus).

To the extent that these differ from the Charter, the underlying documents will be taken as correct.

## 1.2 Application

The Governance Charter is applicable to everyone within the Border to Coast Pensions Partnership and will be made available to all via the Border to Coast website. It will be reviewed annually by the Border to Coast Head of Legal and Company Secretary and the Officers Operations Group and updated as required to reflect any changes in governance arrangements in agreement with the Border to Coast Board, Joint Committee and Shareholders.

## 2. Border to Coast's Strategy

Border to Coast has been established by the Partner Funds to deliver the overall pooling agenda set out by central Government in 2015. LGPS pooling is intended to provide improved performance and investment outcomes to the participating funds and Border to Coast's strategic goal and objectives reflect this purpose.

### *Strategic Goals*

Border to Coast's strategic goal is to make a positive difference to the investment outcomes of its partner Local Government Pension Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative and responsible investment now and in the future, thereby enabling ~~great~~, sustainable, ~~risk-adjusted~~ performance over the long-term.

This strategic goal will be achieved via the following three main objectives:

- 1. Strategy:** Delivering Border to Coast's strategy to deliver the benefits of pooling through the creation of a regulated asset manager in line with the guiding principles
- 2. Customer Outcomes:** (i) Putting customers at the heart of Border to Coast and delivering great service, and (ii) meeting customers' expectations of risk-adjusted investment return and performance
- 3. Governance:** Creating a sustainable organisation making efficient and effective decisions with appropriate oversight

The Board of Border to Coast is responsible for setting the strategic direction and objectives for Border to Coast to inform the annual strategic plan and budget for approval by the Shareholders. The Board has delegated the day-to-day management of Border to Coast in achieving these to the Border to Coast CEO, who in turn works with the Border to Coast Management Team to deliver to the Partner Funds (as both investors and shareholders). The responsibilities of the Border to Coast Board and Management team are considered further in section 5.

## 3. The Role of the Partner Funds as Investors

Each local Administering Authority acts as scheme manager for each Pension Fund, and so is responsible for investing and managing LGPS assets, setting employer contribution rates, collecting employer and employee contributions, paying pension benefits as they fall due, and dealing with various other aspects of administration.

The individual Administering Authority Pension Committees are ultimately responsible and publicly accountable for ensuring that the pension liabilities are appropriately funded and can be paid in accordance with LGPS regulations as they fall due. Specifically, with respect to investment matters, this includes:

- Setting funding and risk management strategies;
- Formulating investment strategy in line with the Investment Strategy Statement, including the approach to Responsible Investment and management of cashflow requirements;
- Complying with Regulations which require the Committee to take advice in determining the Fund's investment policy and making investment decisions;
- Overseeing that asset managers, to whom the delegation of day-to-day investment matters is made, follow the Committee's policies and that investment strategy is implemented in accordance with the Investment Strategy Statement; and
- Approving and monitoring performance targets for the Pension Fund.

To enable the Partner Funds (as investors) to effectively and efficiently implement their investment strategy, Border to Coast, in partnership and working closely with the Partner Funds, is responsible for designing sub-funds with certain risk / return / liquidity characteristics that will provide the strategic "building blocks".

Once the design is agreed, Border to Coast becomes the asset manager responsible for tactical matters such as implementation and ongoing management of each sub-fund, management of internal investment capability, appointment and oversight of external managers, implementation of responsible investment (voting and engagement) policy, and tactical asset allocation within risk parameters agreed with the Partner Funds.

The Partner Funds are responsible for the review of whether the built sub-fund meets their strategic needs and, under their fiduciary duties, will review Border to Coast's capability to deliver the objectives.

The Partner Funds then collectively oversee the performance of Border to Coast as described below. In order to ensure that Border to Coast can be effectively held to account, it is important there is an appropriate degree of separation of duties on implementation of day-to-day business between Border to Coast and Partner Funds. The strategies to ensure this are detailed in this Governance Charter.

### 3.1 Governance Structures supporting the Pensions Committees

The following groups and individuals support the Pensions Committees in working with and overseeing Border to Coast:

- **Joint Committee** is constituted from the 12 Pension Fund Chairs and ~~has met as required to date but plans to meet~~ quarterly now that Border to Coast is established and functioning. It is the collaborative vehicle through which the individual Partner Funds provide collective oversight of the performance and direction of Border to Coast. Its remit includes oversight of progress towards the pooling of Partner Fund assets. Two scheme member representatives, elected by Local Pension Boards of the 12 Partner Funds, also attend as non-voting members of the Committee.-a

As a Section 102 Committee<sup>1</sup>, there are agreed Terms of Reference (see Appendix I to this Charter) and as meetings are held as public meetings they are operated and reported as is required. It should be noted that the Joint Committee does not have any formally delegated authority, and therefore any matters requiring decision must be considered and approved by each Pension Committee.

The Chair and Vice Chair of the Joint Committee are elected by the members of the Joint Committee on an annual basis. Secretariat functions to support the Joint Committee are provided through South Yorkshire Pensions Authority. Tyne & Wear Pension Fund act as host authority for all other matters.

- **Officer Groups** – The Joint Committee is supported by the respective Authority s151 and Monitoring Officers and the Officer Operations Group (“OOG”), constituted from the 12 Senior Pension Fund Officers. These groups meet to discuss issues and give input to both Elected Members and Border to Coast as required. It is anticipated that the OOG will meet bi-monthly going forward, part of the meeting being attended by Border to Coast, part in closed session. The Officer Operations Group work collaboratively together to ensure that due diligence over Border to Coast investment capabilities is carried out effectively on behalf of the Pension Committees.
- **Local Pension Boards** – in line with their role in other administrative and governance matters, the local pension boards provide support and challenge to the Pension Committee's decisions and decision-making process in relevant investment areas, and look to ensure appropriate governance is in place to provide effective monitoring.
- **Advisors** – Regulations require that Pension Funds take professional advice in respect of any investment decisions, and this is generally provided through Funds appointing Independent Investment Advisors and/or Investment Consultants. They will work with the Pension Committee and Officers to ensure that the strategic asset allocation can be effectively implemented through the use of the sub-funds available at Border to Coast.

<sup>1</sup> A Committee established under section 102(1) of the Local Government Act 1972 (LGA), which permits local authorities to discharge their functions through committees.

## 3.2 Investor interaction with Border to Coast

In order to enable the appropriate scrutiny of Border to Coast by the Joint Committee and, ultimately, the individual Pensions Committees, Border to Coast has committed to provide the following support and materials, developed in collaboration with the Partner Funds:

What	To Whom**	Frequency
Update on progress through longer-term transition to pooling (NB ongoing discussions with officers during this period)	Joint Committee and Pensions Committees	Quarterly
Performance reporting (generic and Partner Fund specific)	Joint Committee and Pensions Committees	Quarterly
Attendance* at Joint Committee meetings by the CEO and Chair (and other officers as required)	Joint Committee	Quarterly
Membership of Joint Committee (on a co-opted and non-voting basis) of the shareholder nominated non-executive directors	Joint Committee	Quarterly
Attendance* at Partner Fund Pension Committee meetings by a Border to Coast Client Relationship Team representative (and other officers as appropriate)	Pensions Committees	Quarterly
Organisation of calls with s151 officers by the CEO	S151 officers	Quarterly or as required
Attendance* at the OOG by Border to Coast officers	OOG	Bi-monthly or as required
Provision of monthly management accounting information	OOG	Monthly
Organisation of an investment conference for all Pool stakeholders	All stakeholders	Annually
Invitation for all Pension Committees to hold a meeting at Border to Coast's offices to meet the team and hear presentations	Pensions Committees	Annually or as required
Facilitation of collaborative workshops to enable the build of strategic capability including development of investment capabilities, client reporting and approach to transition management	OOG	Ad hoc (as required)
Facilitation of sessions to enable Pension Committee advisors to input to and challenge	Advisors (and OOG as appropriate)	Ad hoc (as required)
Provision of due diligence information to support the review by officers and advisors of the launch of new investment sub-funds	OOG and Advisors	Ad hoc (as required)

\* "Attendance" includes preparation and presentation of ad hoc reports as required

\*\* OOG includes officers working separately and working parties with attendees nominated by OOG

To support the Partner Funds, Border to Coast has appointed a Client Relationship Team with experience in pensions investment and asset management. Their role is to:

- Provide a single point of contact for Partner Funds to access the investment capabilities of Border to Coast, including access to underlying asset managers
- Ensure that Partner Fund requests and requirements are appropriately serviced, including that reporting needs are serviced in line with agreed Service Level Agreements
- Support the Partner Funds in meeting their training needs with respect to investment
- Understand and represent the Partner Funds in internal Border to Coast meetings to ensure that customer needs are reflected in all decision-making processes
- Provide a first port of call for the resolution of any concerns or queries

Whilst we expect most issues will be able to be addressed via day-to-day interactions, there is also a formal complaints procedure, which is provided to all investors.

## 4. The Role of the Partner Funds as Shareholders

Each Partner Fund also has the right to exercise corporate control and oversight through its Administering Authority's ownership of Border to Coast as an equal shareholder. Each Partner Fund, as shareholder, owns a single equity voting share, and through the exercise of its voting rights across a range of reserved matters demonstrates its exercise of "significant control" as required under "teckal"<sup>2</sup>.

In general shareholders' role in the governance of a company is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place within the company. In the case of the Border to Coast, shareholders also retain certain rights under a Shareholder Agreement entered into by all shareholders at the time of its incorporation, including approval of the annual Strategic Plan (including annual Budget, cash flow, balance sheet, cost sharing, regulatory capital assessment), Company pensions provision, admission of new shareholders and cost sharing. The matters reserved to shareholders are set out in Appendix II.

Border to Coast Board has also invited the Joint Committee to nominate two members to the Board, who can broadly be said to provide a shareholder perspective on the operation of the Company.

As noted in the advice provided to the Partner Funds by [Eversheds in January 2017](#), a shareholder representative must be nominated (as the Administering Authority cannot physically appear at a Company's shareholder meeting). Further, "such a person is representing the Administering Authority and acting on instructions from the Authority. It does not therefore matter legally whether that person is a member or an officer since no delegated powers are being exercised."

Eversheds also advised that ordinarily conflicts of interest were not expected to arise between the customer and shareholder roles. It was therefore possible in the ordinary course of events for the same representative to hold both shareholder and Joint Committee roles. However, Eversheds did recommend that each Administering Authority may wish to have a conflicts of interest policy in place.

### 4.1 Shareholder interaction with Border to Coast

The shareholders carry out their duties under the Shareholder Agreement typically by written resolution, with advice from the section 151 and monitoring officers as deemed appropriate for each Partner Fund. It should be noted that these written notifications of consent to actions made under the Shareholder Agreement are to comply with the terms of that Agreement and are not resolutions of the Company made under the Articles of Association which would require shareholder votes in General Meeting or in accordance with the Articles. These regimes operate alongside one another.

In addition, it is envisaged that Border to Coast will hold an Annual General Meeting to provide the shareholders with a forum for discussion about the Company's performance against the wider pooling objectives and to hold the Border to Coast directors to account for this. This would also provide a forum for discussion regarding future strategic capability build and agreement for changes to the budget to support such developments.

The primary Border to Coast contact for shareholders will be with the Chair, CEO and COO.

## 5. Border to Coast's Governance Structure

Border to Coast's Board is committed to maintaining high standards of corporate governance and believes that a sound corporate governance framework enables efficient and effective decision making with clear accountabilities, contributing to achieving the Company's objectives and delivering long-term and sustainable value to its customers and shareholders. The Board's intention is to achieve general adherence to the UK Corporate Governance Code<sup>3</sup> ("the Code"), notwithstanding business size and closed shareholding.

<sup>2</sup> <http://www.cipfa.org/policy-and-guidance/articles/teckal-the-basics-explained>

<sup>3</sup> [UK Corporate Governance Code July 2018](#)

The responsibilities of the Board include promoting the long-term sustainable success of the Company, establishing the Company's purpose, values and strategy and satisfying itself that these, and its culture, are aligned. The Board must provide the leadership, and ensure that the necessary resources are in place, to put these objectives into effect; supervising the management of the business; and reporting to shareholders on their stewardship. In addition, the Board should ensure effective engagement with, and encourage participation from, its shareholders and other stakeholders. The Board's actions are subject to laws, regulations and the direction of the shareholders whose role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

## 5.1 The Role of the Board

The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs, having due regards to its shareholders, customers and other stakeholders.

The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations to its shareholders, customers and other stakeholders are understood and met.

In carrying out these responsibilities, the Board must have regards to what is appropriate for the Company's business and reputation, the materiality of the financial and other risks inherent in the business and the relevant costs and benefits of implementing specific controls.

The Board should be comprised of suitably skilled and experienced individuals who collectively have sufficient knowledge and understanding of all the Company's markets and products to be able to discharge all their responsibilities in an effective, efficient and compliant manner.

The relevant laws, regulations and the Code all impose duties on the Directors of the Company, as set out in Appendix III to this Governance Charter.

Within the Board, the roles of Chairman and Chief Executive Officer are distinct, but they complement each other. The Code states that the Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The CEO's role is to ensure appropriate day-to-day management of the Company in line with the Board's strategy (see section 5.2 below).

In addition to the general requirements for all Directors, the Company Non-Executive Directors ("**NEDs**") provide:

- Constructive challenge and contribute to the development of strategy;
- Scrutiny of the performance of management in meeting agreed goals and objectives;
- Monitoring of performance; and
- Review that financial information is accurate and that financial controls and systems of risk management are robust.

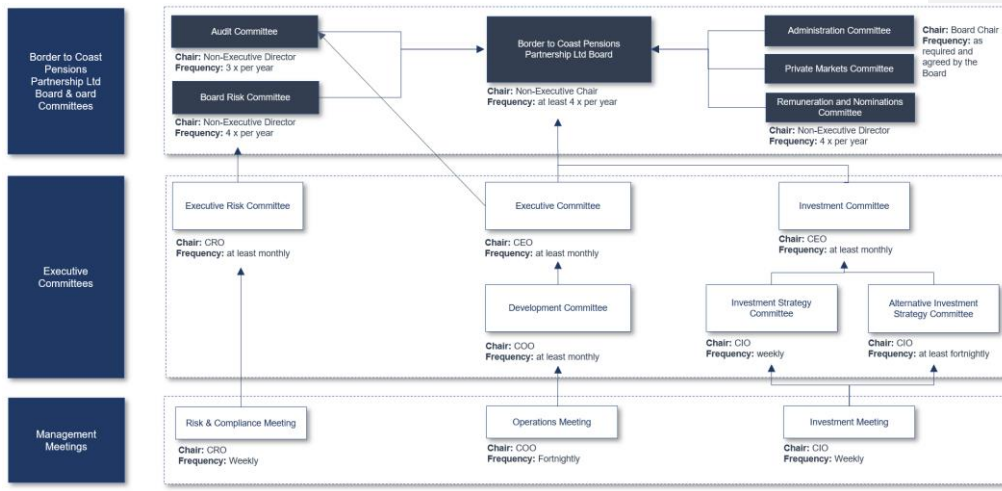
NEDs are also responsible for recommending for approval by the Shareholders appropriate levels of remuneration of Executive Directors and have a prime role in succession planning, appointing, and where necessary removing, senior management.

The Company has sought to include representation from its Shareholders and Partner Funds on the Board. The Partner Funds (via the Joint Committee) have nominated two individuals to act as full Board Members. They are obliged to conduct themselves in the same way as all members of the Board and as described above.

## 5.2 The Role of the Board to Coast Management Team

The Board has delegated to the Chief Executive Officer the management of the Company on a day-to-day basis, subject always to those matters reserved for decision by the Board or its committees.

The Chief Executive Officer has in turn delegated certain of her responsibilities to her direct reports. A number of committees have been created to assist the Chief Executive Officer in her decision-making or to monitor certain activities. The management and chairing of certain committees have been delegated to certain of her direct reports as shown in the governance chart below.



The Chief Executive Officer reports regularly to the Chairman and the Board with appropriate, timely and quality information so that it can discharge its responsibilities effectively. Her specific responsibilities include the following:

- Strategy and Business Planning
- Leadership and Corporate Governance
- Human Resources
- Pensions
- Risk Management and Controls
- Finance
- Customer Services, Conduct Risk Management and Treating Customers Fairly
- Communications and Shareholder Liaison
- Investment Management

### 5.3 The Role of the Regulator

Border to Coast is approved and regulated by the Financial Conduct Authority as an Alternative Investment Fund Manager. This means the Company and its employees must meet certain standards of conduct in the operation of its business. These requirements are set out in Appendix III. The Regulator may carry out investigations if it believes that an organisation is not meeting the appropriate standards. It has wide-ranging powers of intervention and sanction.

### 5.4 The Role of the Depositary

In a regulated collective investment vehicle such as the Border to Coast ACS, a depositary is appointed to act on behalf of investors. Northern Trust has been appointed as the depositary for the Border to Coast ACS. Its duties include:

- Safeguarding assets of the authorised fund via its custody services or utilising a sub-custodian
- Oversight of manager's activities e.g. unit pricing, dealing, portfolio management
- Oversight of how the manager is discharging its responsibilities
- Cash flow / liquidity oversight
- Distributions
- Protecting the best interests of investors
- Reporting breaches of FCA guidance to the FCA (including any due diligence findings).

## Appendix I: 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. First phase – Period to April 2018 or operational commencement of the BCPP Pool (whichever is the later)
  - 2.1.1. To provide support and guidance to the work being undertaken by the Officer Operations Group to give effect to the pooling arrangements.
  - 2.1.2. To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with the Authorities to scrutinise and monitor project management arrangements and proposals for the appointment of advisers by the Authorities.
  - 2.1.3. To oversee costs to deliver the BCPP Pool, obtaining approval from individual Authorities where necessary.
  - 2.1.4. To monitor and scrutinise responsibilities for delivery of the project and relevant support arrangements.
  - 2.1.5. To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group.
  - 2.1.6. To formulate processes and policies for the appointment and termination of membership to the Joint Committee.
  - 2.1.7. To propose and confirm contracts and policies required by the Authorities to commence transition to the BCPP Pool arrangements.
  - 2.1.8. To provide support and guidance to the work being undertaken by the Officer Operations Group to do all things necessary to implement the final proposal, including preparatory work for asset transition.
  - 2.1.9. To consider the initial range of sub-funds to be provided by the ACS and to make recommendations to the BCPP Board for the creation of those sub-funds.
  - 2.1.10. To review and comment on the draft ACS prospectus and supporting documents on behalf of the Authorities prior to the Financial Conduct Authority approval.
- 2.2. Phase 2 – Post Establishment and Commencement of Operations
  - 2.2.1. To facilitate the adoption by the Authorities of relevant contracts and policies.
  - 2.2.2. 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).
  - 2.2.3. 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.
  - 2.2.4. 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).
  - 2.2.5. 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.
  - 2.2.6. 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.
  - 2.2.7. 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.



- 2.2.8. 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.
- 2.2.9. 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.
- 2.2.10. To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

## Appendix II: Schedule of Matters Reserved for Decision by the Shareholders

### PART A – Matters for approval by all of the Shareholders (unanimous consent required)

1. subject to FCA rules, extend the activities of the Company outside the scope of the Business or close down any operation of the Business;
2. subject to FCA rules, give any guarantee or indemnity outside the ordinary course of the Business to secure the liabilities of any person or assume the obligations of any person (other than a wholly owned subsidiary) (e.g. guaranteeing a lease that does not relate to the Business of the Company);
3. subject to FCA rules, enter into or vary any contracts or arrangements with any of the Shareholders or directors (other than service agreements and letters of appointment as directors) or any person with whom any shareholder or director is connected (whether as director, consultant, shareholder or otherwise) (e.g. any contract which could give preferential rights to a specific shareholder);
4. enter into any agreement not in the ordinary course of the Business and/or which is not on an arm's length basis;
5. enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, the Company being managed otherwise than by its directors;
6. change the name of the Company;
7. pass a resolution or present a petition to wind up the Company or apply for an administration order or any order having similar effect in a different jurisdiction in relation to the Company unless in any case the Company is at the relevant time unable to pay its debts within the meaning of section 123 Insolvency Act 1986;
8. reduce or cancel any share capital of the Company, purchase its own shares, hold any shares in treasury, allot or agree to allot, whether actually or contingently, any of the share capital of the Company or any security of the Company convertible into share capital, grant any options or other rights to subscribe for or to convert any security into shares of the Company or alter the classification of any part of the share capital of the Company (in each case other than as expressly permitted by this Agreement and/or the Articles where no prior consent shall be required including, without limitation, pursuant to either **clause 4 (Finance & Regulatory Capital)** and/or **clause Error! Reference source not found. (Consequences of Breach)** and/or **Article 26** of the Articles (**Issue of Shares and Pre-Emption Rights**));
9. other than as expressly permitted by this Agreement and/or the Articles, redeem or buy any existing Shares or otherwise reorganise the share capital of the Company;
10. admit any person as a member of the Company or an investor in the BCPP pool;
11. enter into any partnership, joint venture or profit sharing arrangement with any person (excluding entering into any investment or investment vehicle);
12. alter any of the provisions of the Articles or any of the rights attaching to the Shares;
13. amalgamate or merge with any other company or business undertaking;
14. sell, lease (as lessor), license (as licensor), transfer or otherwise dispose of any of its material assets otherwise than in the ordinary course of the Business;
15. the removal and replacement of any Interim Directors, but for the avoidance of doubt not including any subsequent or replacement appointments of any director which shall be made under Part B below;
16. commence, settle or defend any claim, proceedings or other litigation brought by or against BCPP, except (i) in relation to debt collection (not exceeding £500,000) in the ordinary course of the Business and (ii) in relation to any investment related claims or proceedings relevant to the ACS or other collective investment vehicles;

17. take out any third party loan(s) in respect of BCPP which (in aggregate) exceed the sum of £5,000,000;
18. form any subsidiary of BCPP, or acquire any shares in any other company, whether through subscription or transfer, such that the company concerned becomes a subsidiary of BCPP;
19. determine the composition, governance arrangements and limits of authority of any and all subsidiaries of BCPP;
20. approving and adopting an Initial Strategic Plan (including the Annual Budget) and/or amending any such Plan; and
21. make any capitalisation, repayment or other distribution of any amount standing to the credit of any reserve of the Company or pay or declare any dividend or other distribution to the Shareholders save that no consent will be required to pay the B Share Dividend.

**PART B – Matters for approval by a Shareholder Majority only**

1. enter into or materially vary any licence or other similar agreement relating to intellectual property to be licensed to or by the Company which is otherwise than in the ordinary course of the Business;
2. appoint or remove the auditors of the Company;
3. alter the Company's accounting reference date;
4. make any significant change to any of the Company's accounting or reporting practices other than conforming with any changes made to the accounting standards adopted by the Company;
5. approve the annual accounts of the Company;
6. determine the amount of, or any increase in, remuneration payable to any directors from time to time;
7. establish or amend any pension scheme (i.e. for employees of the Company);
8. subject to FCA rules, enter into any agency, distribution or similar agreement which confers or is expressed to confer any element of exclusivity as regards any goods or services the subject of such agreement or as to the area of the agreement or vary such an agreement to include any such exclusivity;
9. incur in any financial year any item or series of items of capital expenditure including finance leases (but excluding operating leases) of more than £5,000,000 (unless provided for in the Initial Strategic Plan or any Subsequent Strategic Plan);
10. enter into or vary any operating lease either as lessor or lessee, of any plant, property or equipment of a duration exceeding 5 years or involving aggregate premium and annual rental payments in excess of £100,000 (unless provided for in the Initial Strategic Plan or any Subsequent Strategic Plan);
11. adoption of (and any amendment of) any written conflicts policy;
12. approval of any conflict or potential conflict of interest any director may have which would preclude him or her from being included in the quorum of any meeting of the directors;
13. appointment of any subsequent director, any alternate director (who is not at the time a director of the Company) and including, for the avoidance of doubt any subsequent Chair in accordance with the Companies Act 2006 or otherwise;
14. removal of any director and, for the avoidance of doubt, the Chair in accordance with the Companies Act 2006 or otherwise; and
15. approving and adopting a Subsequent Strategic Plan (including the Annual Budget) and/or amending any such Plan.

## Appendix III: Legal and Regulatory Duties of the Board

### Border to Coast's Regulator

As an asset management company, Border to Coast is regulated by the Financial Conduct Authority ("FCA").

Border to Coast Directors are "approved persons" (and at a future date will hold roles classified as Senior Management Functions / ~~Controlled Functions~~ under the Senior Management and Certification Regime ("SMCR")) for regulatory purposes and are required to act in accordance with the principles issued by the FCA.

The FCA requires Directors and senior managers to take appropriate practical responsibility for all matters likely to be of interest to the FCA and expects the Board to:

- Determine the Company's strategy and risk appetite;
- Identify and assess risks, implement controls and monitor how the controls are operating;
- Have reporting lines that are clear and appropriate, with the extent and limits of delegation made clear to all concerned; and
- Have regard to such generally accepted principles of good governance as it is reasonable to regard as applicable to it.

Further guidance can be found in the [FCA's handbook](#).

### The FCA's Principles of Business

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

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

The Company operates its business in accordance with standards outlined above. The Head of Legal and Company Secretary and the Compliance function support the Board in fulfilling its responsibility for the governance and oversight of the Company in relation to the above FCA Principles ~~of~~ for Business.

## Duties under the Companies Act 2006

[The UK Companies Act 2006](#) requires a Director to display possession of the knowledge, skill and experience that may reasonably be expected of a person carrying out the role. It also codifies the following Directors' duties into law:

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

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

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

## Individual Conduct Rules and Standards

Directors who hold [roles which are classified as Senior Management Functions \(SMF\) or are Certified /Controlled Functions](#) are also subject to the [FCA's Individual Code of Conduct Rules](#). As such they are subject to the following individual conduct rules and standards:

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

In addition to the above Conduct Rules, those Directors who hold certain specific SMR Functions / Controlled Functions are subject to the following additional FCA Conduct Rules:

- SC1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.
- SC2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.
- SC3: You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively.
- SC4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

## The Nolan Principles: the seven principles of public life

The Nolan Principles<sup>4</sup> are the basis of the ethical standards expected of public office holders. This includes people who are elected or appointed to public office and all people appointed to work in public bodies such as the civil service; local government; the police; the courts and probation services; non-departmental public bodies; and health, education, social and care services. The principles also apply to all those in other sectors that deliver public services.

The principles are Selflessness; Integrity; Objectivity; Accountability; Openness; Honesty; and Leadership.

The Board expects all representatives of Border to Coast to abide by these principles.

<sup>44</sup> <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

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## BCPP Joint Committee

**Date of Meeting:** 9 March 2020

**Report Title:** Border to Coast Market Review

**Report Sponsor:** Border to Coast CIO – Daniel Booth

### **1 Executive Summary:**

- 1.1 This report provides an overview of 2019 market performance and 2020 market pricing.
- 1.2 2019 witnessed strong asset returns across all asset classes; global equities (27%), UK government bonds (10%), high yield and EM bonds (12%). Positive returns were a function of falling interest rates and declining risk premiums and followed negative 2018 returns.
- 1.3 2020 market pricing is for a continuation of the last decade with continued low interest rates, mediocre growth and subdued inflation. Shift in policy responses means it is unlikely that the next decade will reflect the prior period.
- 1.4 This is the first such report to the Joint Committee and any feedback is welcomed.

### **2 Recommendation**

- 2.1 That the report be noted.

### **3 Overview of 2019 Market Performance**

- 3.1 Strong 2019 asset class returns followed on from weak 2018 performance:

Passive Total Return by Asset Class

Asset Class	Passive Total Return*		Asset Class	Passive Total Return*	
	2019	2018		2019	2018
<b>Equities</b>					
Global	27.4%	-6.6%	US	14.8%	-2.5%
US Large Cap (S&P 500)	31.5%	-4.4%	Global	12.6%	-1.0%
US Large Cap Growth (Russell 1000 Growth)	29.9%	-1.5%	<b>High-Yield Bonds</b>		
US Large Cap Value (Russell 1000 Value)	21.3%	-8.3%	US	12.0%	-2.1%
US Small Cap (Russell 2000)	20.7%	-11.0%	Global	12.1%	-2.7%
Germany	28.2%	-15.7%	<b>Emerging Market Debt</b>		
France	34.2%	-5.2%	EMBI Plus	12.6%	-5.3%
Italy	36.0%	-10.7%	<b>Bond Aggregates (Bloomberg)</b>		
Spain	19.6%	-9.3%	US	8.4%	0.0%
Japan	22.7%	-13.0%	Global	8.1%	1.8%
UK	19.9%	-7.5%	<b>Commodities</b>		
Canada	23.4%	-8.5%	S&P-GSCI Commodity Index	10.4%	-13.8%
Australia	25.0%	-1.8%	Bloomberg Commodity Index	2.6%	-11.2%
Emerging Markets (Unhedged)	18.9%	-14.2%	Crude Oil (Brent)	34.2%	-14.0%
<b>Government Bonds</b>					
US	7.1%	0.8%	Gold	18.3%	-2.6%
Germany	6.4%	4.7%	<b>Other</b>		
Japan	4.7%	3.3%	Hedge Funds (HFRX Global Index)	5.2%	-6.0%
UK	10.4%	1.7%	US Real Estate (NAREIT)	25.2%	-4.1%
Canada	5.1%	3.0%	EUR vs USD	-6.3%	-7.3%
Australia	11.0%	5.5%	JPY vs USD	-2.3%	0.1%
<b>Inflation-Linked Bonds</b>					
US	8.8%	-1.5%	EMFX vs USD	-2.0%	-6.0%
Germany	5.5%	3.5%	US Cash	2.4%	2.0%
Japan	2.1%	0.6%			
UK	8.0%	1.0%			
Canada	8.7%	0.5%			
Australia	9.6%	3.9%			

\*All returns are USD-hedged unless noted otherwise. All equity returns are MSCI indices unless noted otherwise.

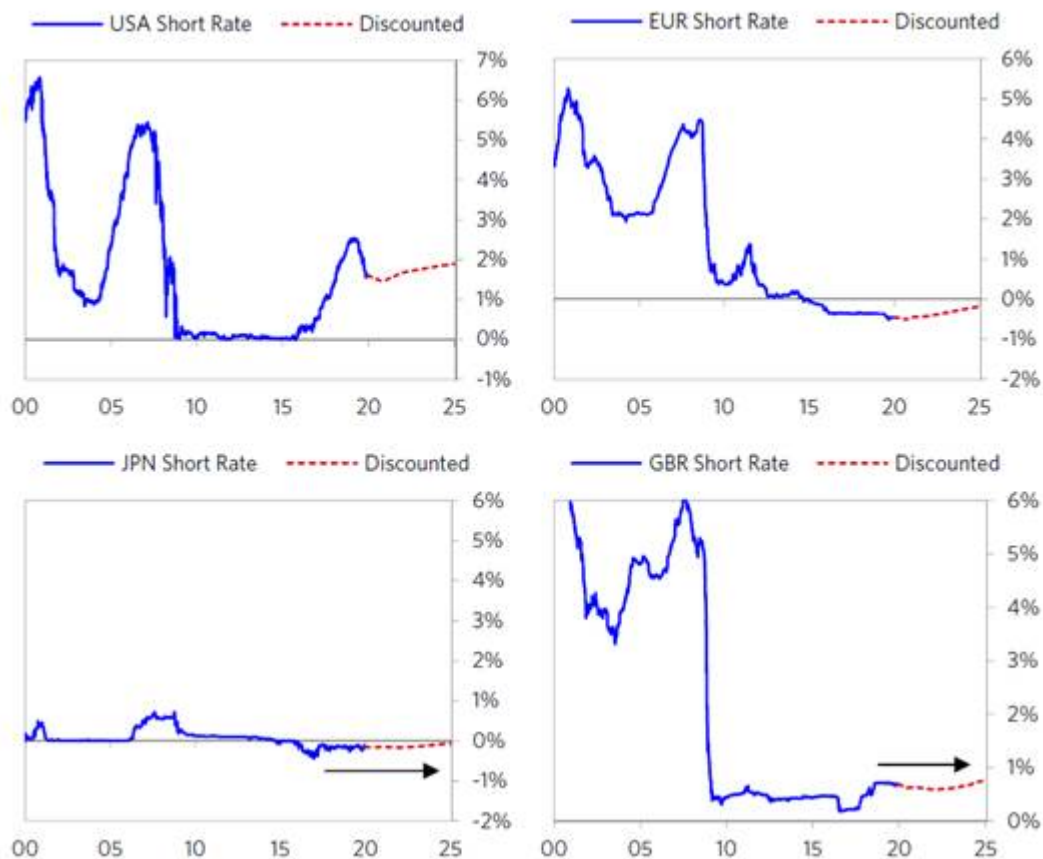
- 3.2 2019 asset returns were driven by falling interest rates (increasing the present value of future cashflows) and declining risk premium (compensation required to hold risky assets).
- 3.3 **Interest Rates** witnessed a switch from a tightening to an easing of policy as Central Banks (especially US) pivoted due to ongoing weak inflation. US Fed was forecast to continue raising interest rates but actually delivered 3 interest rate cuts and the EU ECB restarted Quantitative Easing (bond purchasing program):



- 3.3.1 **Interest Rates** are now discounted to stay flat for a prolonged period (with the US Fed Reserve priced to ease 15 bps in 2020):



### Short Rates Are Discounted to Remain Low Everywhere for a Long Time

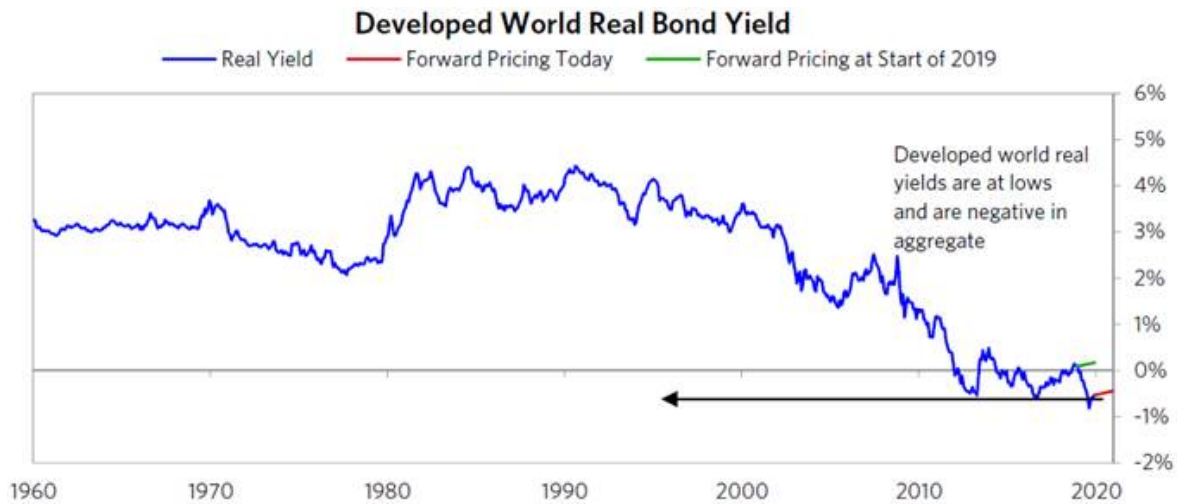


3.4 **Bond markets** rallied due to lower interest rates, weak inflation data and renewed Central Bank bond purchases.

3.4.1 *Developed World Nominal Bonds* are at secular lows (driven by low real yields and low inflation expectations) and are priced at stay around current levels:



3.4.2 *Developed World Inflation Linked Bonds* are at lows with negative yields which reflects the ongoing secular imbalance in the supply and demand for capital (i.e. excess liquidity):



3.5 **Corporate spreads** tightened with abundant global liquidity (with high yield energy sector under more strain due to oversupply and higher debts).

3.6 **Global Equities** returns are a function of changes in:

- current year earnings: flat 2019 annual earnings which was below expectation (**negative**)
- future earnings expectations: unchanged future implied earnings (neutral).
- interest rates: lower interest (discount) rates (**positive**) which boost present value of future cashflows
- equity risk premium: decline in equity risk premium (**positive**) as investors demanded lower compensation for holding risky asset which boosted multiples paid.

3.6.1 2019 positive equity returns were a function of lower interest rates and price-earnings multiple expansion:



3.6.2 *Global Equity 27% return broken down into dividends (3%), price-earnings multiple expansion (22%) and earnings per share growth (2%). World price-earning multiples increasing from **13.4x (start of 2019) to 16.5x (end of 2019)** reflecting both lower interest rates (support higher multiples) and lower investor risk premium (investors happy to pay higher prices):*

## 2019 MSCI Index Price Change

	Change in Price	Change in Fwd EPS	Change in Fwd P/E	Fwd P/E Start of Year	Fwd P/E Today
World*	24%	2%	22%	13.4	16.5
Dev World	25%	2%	23%	13.9	17.1
EM*	15%	-6%	22%	10.6	12.9

3.6.3 Opposite of 2018 when we witnessed strong corporate earnings growth but negative equity returns and the subsequent price-earnings multiple contraction representing an increase in the equity risk premium (as investor feared Central Bank liquidity reduction).

3.7 **Developed Market (DM) Currencies** were priced to appreciate versus USD (reflecting higher US IR) but saw a weakening EUR and a marginally strengthening GBP:

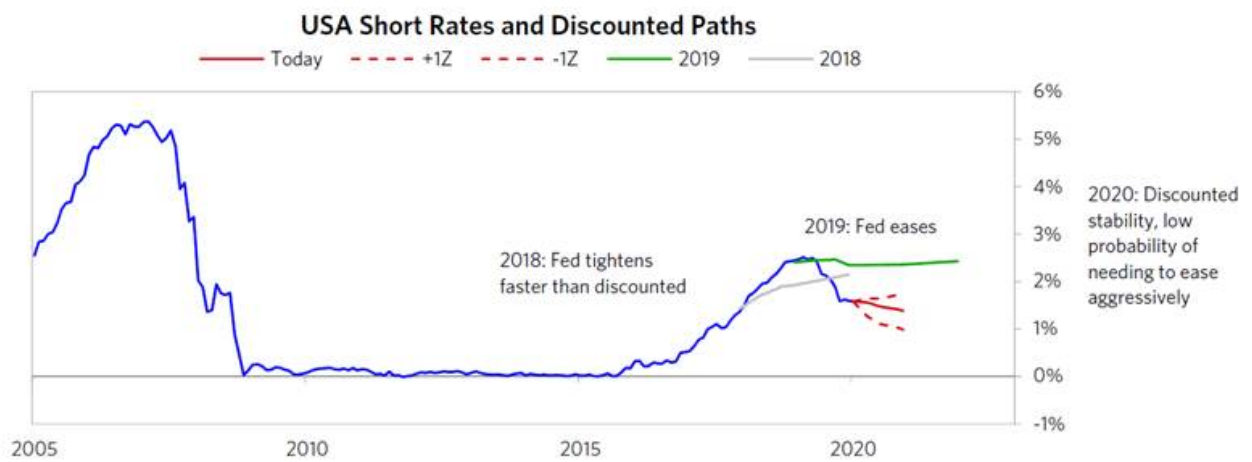


## 4 2020 Market Discounting

4.1 Asset returns are a function of *how events transpire* versus *market discounting* and *how the discounting changes* (so investors need to understand current market pricing).

4.2 Monetary Policy shift is fully discounted (with rates staying at secular lows due to low inflation rates) and it has taken markets 10 years to fully understand easy monetary policy required with a private sector deleveraging. When the Fed raised interest rates faster than expected (in 2018) this led to a slowdown in activity and prompt a subsequent reversal monetary policy to an easing (in 2019).

4.3 Interest Rate market is currently priced neither to tighten or ease rates (relatively rate stability as shown red / red dotted lines below):



- 4.4 Markets are priced for negative real rates and inflation to be below Central Bank targets despite easy monetary policy.
- 4.5 Markets are priced for mediocre growth with low discounted equity earnings growth, apart from US priced more normal earnings growth (as see via higher price-earnings multiples):



- 4.6 Low future expected asset returns are mainly a function of low interest rates (cash) with expected excess return over cash more normal (slightly expensive).
- 4.7 Low interest rates continue to push money out on the risk curve with subsequent demand causing a rally in risk asset prices and a decline in yields (lowering expected future return).

## 5 Conclusion

- 5.1 Market pricing is consistent with a continuation of extremely easy monetary policy with low nominal and negative real interest rates leading to similar outcome of past relatively low inflation and low growth rates.
- 5.2 Stated arguments for continuation of an ongoing deflationary environment include:
  - a) excessive developed world debt levels
  - b) low aggregate demand (with constrained private sector borrowing).
  - c) low levels of productivity (partly underinvestment last decade)
  - d) low levels of labour market bargaining power (due to technological improvements and automation)
  - e) demographics (ageing population impacts on the above)

- 5.3 However, longer-term inflation risk may be under-priced by markets due to the beginning of changing underlying market conditions:
- a) Renewed Quantitative Easing (expansion money supply) without offsetting commercial bank deleveraging (constant multiplier) as banks high tier 1 capital ratios.
  - b) Expansionary Fiscal Policies (expand money supply and especially risky if deficit monetarization occurs)
  - c) Ageing demographics causes a relative shift in power of labour versus capital leading to increasing unit labour costs (as limited local labour supply).
  - d) Reduced global supply side efficiency as increased global trade frictions. Particularly case for UK as BREXIT impacts from both reduced labour supply (increase unit labour costs) and increased trade frictions / costs.
  - e) Debt deflations typically end with inflationary (policy makers path of least resistance)
- 5.4 Market pricing is consistent with the environment of last decade: any switch to an alternative scenario not reflective of market pricing could cause large relative asset price changes (as there is a much lower hurdle for a surprise). Timeframe for a potential change to the environment remains unknown.

*All charts courtesy of Bridgewater Associates.*

**Report Author:**

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28<sup>th</sup> February 2019

**Important Information**

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## Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 31 December 2019  
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee  
Date of Meeting: 9 March 2020

Author: Jamie Roberts, Border to Coast CRM team  
Date: 17 February 2020

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### **Purpose of Report**

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Fund over Q4 2019.
2. The Committee is recommended to note this report.

### **Important Information**

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## Background

3. Border to Coast launched this internally managed Fund on 26<sup>th</sup> 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 a 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 £4.7bn.

## Performance

10. Performance to the quarter end is shown below:

	Since inception 26/07/18  % pa	Year  %	Quarter  %
UK Listed Equity Fund	+5.49	+20.96	+4.28
FTSE UK All Share Index	+4.05	+19.17	+4.16
Actual Variance <sup>1</sup>	+1.44	+1.79	+0.12
Target Variance <sup>2</sup>	+1.00	+1.00	+0.25
Performance Relative to Target <sup>3</sup>	+0.44	+0.79	-0.13

<sup>1</sup> Fund performance minus Benchmark performance

<sup>2</sup> Based on the Fund's Performance Objective

<sup>3</sup> Actual Variance minus Target Variance



## Note

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

11. Performance was slightly above the Benchmark for Q4 2019 and continues to meet the Performance Objective over longer periods.
12. Outcome of the general election reduced uncertainty around Brexit. As well as a relief bounce in the market and sterling strength, UK-focused companies were the main beneficiaries, with overseas earners under-performing. This was a reversal of the trends seen since the referendum in 2016 and was not unexpected.
13. The Fund benefited from the recovery in smaller companies, which tend to have a UK bias, but this was partly offset by an over-weight position in overseas earners relative to domestic earnings.
14. Portfolio positioning during the tumultuous events since inception has been difficult and has resulted in the Fund having a relatively low risk profile, whilst still generating performance above target.
15. The reduction in market uncertainty should enable the relative risk profile of the Fund to increase over the medium term.
16. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Biotech Growth Trust (o/w)	0.56	0.02	0.12	Increased merger and acquisition activity
JP Morgan Smaller Co. (o/w)	0.40	0.01	0.11	UK Smaller companies have rallied post UK election
Montagu UK Smaller Co. (o/w)	0.45	0.01	0.10	UK Smaller companies have rallied post UK election
Travis Perkins (o/w)	0.59	0.17	0.09	Better than expected quarterly trading statement
Glencore (u/w)	0.00	1.07	0.09	Bribery investigation opened by UK serious fraud office
Tullow Oil (o/w)	0.10	0.04	-0.15	A series of disappointing drilling outcomes
International Airlines Group (u/w)	0.00	0.42	-0.09	Beneficiary of reduction in Brexit uncertainty
Unilever (o/w)	2.40	1.99	-0.06	Reduced sales growth due to slowing emerging market growth
Barclays (u/w)	1.02	1.30	-0.05	Positive trading statement ahead of expectations
Barratt Developments (u/w)	0.00	0.32	-0.05	Brexit Beneficiary. Supportive gov housing policy

Source: Northern Trust & Border to Coast

## Portfolio Structure

17. 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	+1.36
Industrials	+0.69
Basic Materials	+0.53
Oil & Gas	+0.19
Consumer Goods	+0.02
Consumer Services	-2.28
Financials	-1.68
Utilities	-0.30
Technology	-0.27
Health Care	-0.09

Source: Northern Trust

18. Notes:

19. Common Stock Funds (+) – exposure to smaller companies and sector-specialist investments via collectives.

20. Industrials (+) – diversified sector benefiting from increased global investment capital expenditure.

21. Basic Materials (+) – strong cash generation enabling significant debt reduction, increased shareholder distributions, and capital investment into the longer term at current commodity prices.

22. Consumer Services (-) – high street expected to continue to suffer from pressure on UK consumer discretionary spending and high occupancy costs.

23. Financials (-) – under-weight in Banks due to concerns over UK consumer debt and residual Brexit uncertainty, partly offset by over-weight positions in Insurers and Wealth Managers.

24. Utilities (-) – regulatory and political headwinds (including recent nationalisation risk ahead of UK elections) alongside increased scrutiny of shareholder returns.

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

- M&G PLC (£20.8m) – new position following the separation from Prudential. Positive meeting with company.
- Travis Perkins PLC (-£4.9m) – reduced over-weight – shares recovered sharply following trading statement.

## **Risk Profile**

26. 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 0.98%, just outside the risk appetite of 1% - 3%.
  - The ex-ante (forward looking) tracking error as of quarter end was 0.87%, slightly under the risk appetite.
  - The risk profile of the Fund has been positioned at the lower end of the target range due to uncertainty regarding Brexit and the general election. As some of these issues have been resolved to a certain extent the risk profile of the fund is likely to increase modestly.

## **Market Background**

27. Global economic growth has continued to soften during the quarter, although leading indicators have shown some signs of stabilisation
28. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions
29. In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit.
30. Global inflation remains low, wage growth appears contained and interest rate expectations fallen.
31. There has been a modest appreciation in global equity markets (MSCI ACWI) with a total return of 1.1% (in sterling terms) during the quarter. Developed markets (+0.7%) underperformed Emerging Markets (+3.5%)
32. Value stocks failed to maintain their previous quarter's out-performance of Quality - but Momentum stocks continued to under-perform.
33. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.

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## Border to Coast Pensions Partnership Ltd

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Border to Coast Overseas Developed Equity Fund (“the Fund”)

Report for the Quarter Ended 31 December 2019  
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee  
Date of Meeting: 9 March 2020

Author: Jamie Roberts, Border to Coast CRM team  
Date: 17 February 2020

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### **Purpose of Report**

1. This report summarises the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q4 2019.
2. The Committee is recommended to note this report.

### **Important Information**

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## Background

3. Border to Coast launched this internally managed Fund on 26<sup>th</sup> July 2018.
4. The Fund invests primarily in listed equities of companies from overseas developed countries which are included in the index.
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 £3bn.

## Performance

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

	Since inception 26/07/18 % p.a.	Year %	Quarter %
Overall Fund	7.11	21.77	1.32
Benchmark	6.22	20.02	0.90
Actual Variance <sup>1</sup>	+0.88	+1.75	+0.43
Target Variance <sup>2</sup>	+1.00	+1.00	+0.25
Performance Relative to Target <sup>3</sup>	-0.12	+0.75	+0.17

<sup>1</sup> Fund performance minus Benchmark performance

<sup>2</sup> Based on the Fund's Performance Objective

<sup>3</sup> Actual Variance minus Target Variance

\* Values do not always sum due to rounding

Note

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**

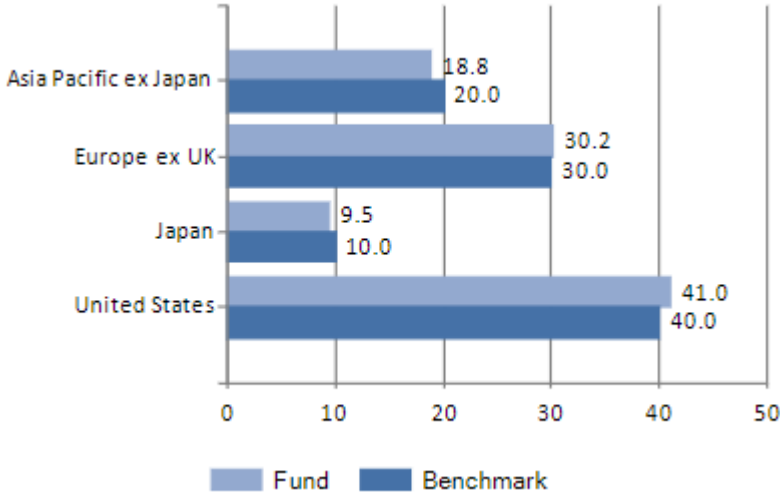
12. Overall Fund performance was above its target over Q4 2019 and is above Benchmark since inception.
13. The performance of the individual regional sleeves of the Fund over Q4 was as follows:
  - US: Fund 1.70% vs Benchmark of 1.29%
  - Japan: Fund 0.91% vs Benchmark of 0.21%
  - Europe ex UK: Fund 0.70% vs Benchmark of 0.81%
  - Asia Pacific ex Japan: Fund 1.68% vs Benchmark of 0.46%
14. Tentative improvement in the trade relations between the US and China had a beneficial impact on export-oriented countries (e.g. Germany, Japan etc.) and sectors (e.g. Industrials, Technology etc.).
15. Some signs of stabilisation and expectations of a recovery in the Technology sector, driven by an unwinding of excess inventory and positive consumer responses to new products – e.g. Galaxy Note 10, iPhone 11.
16. The reversal of the inversion of the US yield curve and reduced expectations of a recession, resulting in an improvement in investor sentiment.
17. A developing global trend of an improvement in the relative performance of value stocks which have under-performed quality stocks significantly over the last decade and are now valued at a substantial discount. The sub-fund is typically over-weight quality stocks and so a continuation of this trend could have a detrimental impact on performance, although there have been a number of false dawns in the past.
18. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
NVIDIA Corporation (o/w)	0.51	0.22	0.06	Benefitted in general improvement in semiconductor stocks
Nokia (u/w)	0.00	0.09	0.04	Cut profit guidance and halted dividend pay outs
UnitedHealth Group (o/w)	0.57	0.42	0.03	Improved political sentiment, plus solid results
CSL (o/w)	0.92	0.66	0.03	Shares out-performed due to solid results
HBM Healthcare (o/w)	0.36	0.00	0.03	Out-performed on the back of successful fundraising
Constellation Brands (o/w)	0.33	0.05	-0.04	Investor disappointment on softening of business disposal plans
Vanguard US Mid Cap ETF (o/w)	2.94	0.00	-0.04	Mid-cap under-performed S&P 500 by 2% over quarter
Home Depot (o/w)	0.66	0.36	-0.04	Concerns that recent weak results may indicate deeper problems
McDonalds Corp (o/w)	0.43	0.22	-0.04	Sudden departure of CEO not well received
Kering (u/w)	0.00	0.21	-0.03	Quarterly results better than expected

Source: Northern Trust & Border to Coast

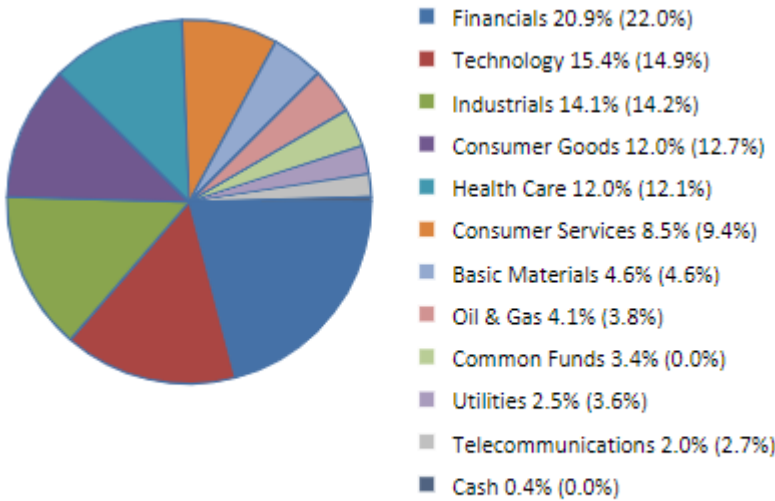
**Portfolio Structure**

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



Source: Northern Trust

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



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

Source: Northern Trust

21. Notes:

- Common Stock Funds (+) – exposure to smaller companies via collective vehicles, in US, Europe and Japan.
- Technology (+) – long-term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous vehicles, new generation memory chips.



- Oil and Gas (+) – relatively defensive sector, valuations significantly below the long-term average and strong free cash flow generation, enabling increased shareholder distributions.
- Consumer Services (-) – concerns over consumer spending and continuing structural shift to on-line retail.
- Utilities (-) – pressure from increased capital investment, changes in government policy and increased regulatory risk are having an adverse impact on “traditional” power generation companies.
- Financials (-) – under-weight in Banks due to concerns over profitability, non-performing loans, legacy litigation issues and regulation risk.

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

- Vanguard Mid-Cap ETF (+14.1m) – reducing the Fund’s underweighting of smaller US companies.
- Allergan (-£8.3m) – realising gains following takeover approach – proposed merged entity isn’t compelling.

### **Risk Profile**

23. 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.

24. Both the ex-post and ex-ante tracking error as of quarter end are below target, standing at 0.63% and 0.56% respectively.

### **Market Background**

25. Global economic growth has continued to soften during the quarter, although leading indicators have shown some signs of stabilisation

26. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions

27. In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit.

28. Global inflation remains low, wage growth appears contained and interest rate expectations fallen.

29. There has been a modest appreciation in global equity markets (MSCI ACWI) with a total return of 1.1% (in sterling terms) during the quarter. Developed markets (+0.7%) underperformed Emerging Markets (+3.5%)

30. Value stocks failed to maintain their previous quarter’s out-performance of quality stocks and momentum stocks continued to under-perform.

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

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## Border to Coast Pensions Partnership Ltd

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Border to Coast Emerging Markets Equity Fund ("the Fund")

Report for the Quarter Ended 31 December 2019  
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee  
Date of Meeting: 9 March 2020

Author: Jamie Roberts, Border to Coast CRM team  
Date: 17 February 2020

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### **Purpose of Report**

1. This report summarises the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q4 2019.
2. The Committee is recommended to note this report.

### **Important Information**

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511). The information provided in this paper does not constitute a financial promotion and is only intended for the use of Professional Investors. The value of your investment and any income you take from it may fall as well as rise and is not guaranteed. You might get back less than you invested. Issued by Border to Coast Pensions Partnership Ltd, Toronto Square, Leeds, LS1 2HP.



## Background

3. Border to Coast launched this internally managed Fund on 22<sup>nd</sup> October 2018.
4. The Fund has a quality bias with a focus on companies that can generate long term sustainable growth, with a modest value bias which results in a higher exposure to more cyclical stocks, and a focus on larger companies. Border to Coast are long term investors and we expect low portfolio turnover.
5. Most of the Fund's performance is expected to arise from stock selection decisions with more modest contribution from country and sector allocation decisions.

## Performance Objective

6. The Fund's objective is to outperform the S&P Emerging Broad Market Index ("the Benchmark") by 1% per annum over three year rolling periods.
7. 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

8. The Fund's market value at the quarter end was £755.1m.

## Performance

9. Performance to the quarter end is shown below:

	Since inception 22/10/18	Year	Quarter
	% pa	%	%
Emerging Markets Equity Fund	+12.68	+14.87	+4.42
S&P Emerging BMI	+13.73	+14.84	+3.31
Actual Variance <sup>1</sup>	-1.05	+0.03	+1.10
Target Variance <sup>2</sup>	+1.00	+1.00	+0.30
Performance Relative to Target <sup>3</sup>	-2.05	-0.97	+0.80

<sup>1</sup> Fund performance minus Benchmark performance

<sup>2</sup> Based on the Fund's Performance Objective

<sup>3</sup> Actual Variance minus Target Variance

Note

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**

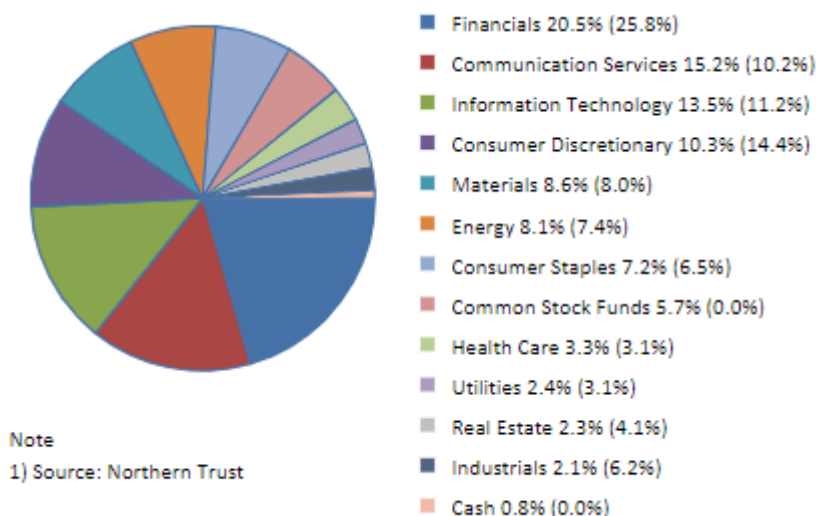
10. Performance was above the Benchmark for Q4 2019 but is below the benchmark and target since inception.
11. Tentative improvement in the trade relations between the US and China had a beneficial impact on export-oriented countries e.g. China, Taiwan and sectors e.g. Industrials, Technology etc.
12. Continued weakness in economic activity, with some signs of stabilisation, which has resulted in widespread interest rate cuts across the region and increased fiscal stimulus, particularly in Asia.
13. A developing global trend of an improvement in the relative performance of Value stocks which have under-performed Quality stocks significantly over the last decade and are now valued at a substantial discount. The sub-fund has a modest over-weight exposure to Value stocks which has had a beneficial impact on performance.
14. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Yageo (o/w)	1.02	0.06	0.46	Benefitted for a tightening of industry inventory levels
Alibaba (o/w)	6.15	4.97	0.14	Benefitted from improvement in investor sentiment
TIM (o/w)	0.78	0.05	0.14	Reported better than expected earnings
Gerdau(o/w)	0.50	0.08	0.14	Improvement in demand from the construction sector
58.Com ADR (o/w)	0.57	0.09	0.14	Relatively low valuation and successful cost cutting
3SBio (o/w)	0.52	0.01	-0.19	Impact of government procurement programme
Magnit (o/w)	0.73	0.00	-0.14	Suffered from tough operating conditions
ITC (o/w)	0.80	0.14	-0.13	Suffered from loss of market share
Larsen & Toubro (o/w)	0.66	0.09	-0.13	Unexpected and sharp slowdown in Indian economy
China Unicom (o/w)	0.52	0.08	-0.11	Weakness in Chinese telecoms due to lacklustre growth

Source: Northern Trust & Border to Coast

## Portfolio Structure

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



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

Source: Northern Trust

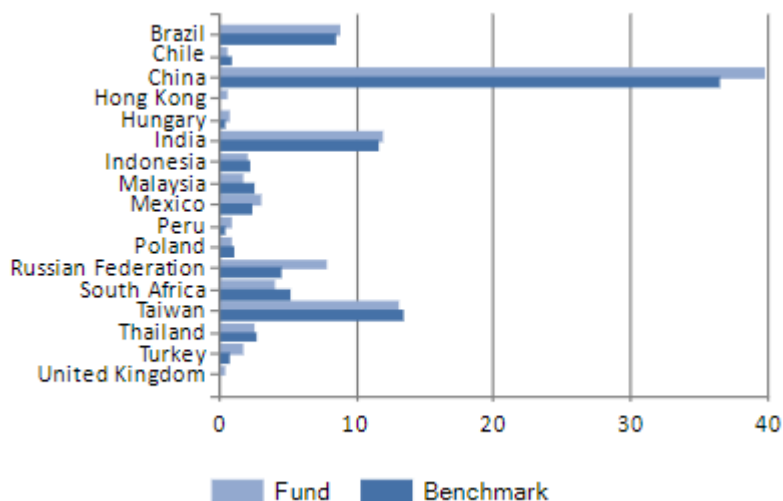
16. The most significant overweight and underweight allocations at a sector level, relative to the Benchmark, at the quarter end were as follows:

- Common Stock Funds (+) – provides timely exposure for investment of cash inflows, exposure to smaller countries within the index, and exposure to smaller companies in general.
- Communications Services (+) – exposure to a relatively defensive sector with positive long-term growth dynamics through the transition towards 5G technology, growth in “the internet of things” and potentially industry consolidation/co-operation.
- Information Technology (+) – long-term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous Vehicles, and new generation memory chips. Although the sector has been impacted in the short term from the escalating trade tensions, there are positive signs of a turnaround as a result of demand for next generation smartphones.
- Financials (-) – large under-weight driven by an under-weight in Banks, due to high valuations in some markets and more generally due to the headwinds against profitability, which is partly offset by an over-weight position in Insurance.
- Industrials (-) – the sector tends to be skewed towards mid and small-cap companies of varying quality and exposure will tend to come from investments in collective vehicles.
- Consumer Discretionary (-) – consumer stocks in Emerging Markets are generally not attractively priced at the current time, although demographic trends and increased disposable incomes are positive long-term drivers.

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

- Alibaba (£7.5m) – added to position – continuation of strong results announcements.
- iShares MSCI Emerging Markets ETF (-£38m) – unwinding ETF to invest directly in underlying stocks.

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



### 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 1.55%, just inside the risk appetite of 1% - 3%.
- The ex-ante (forward looking) tracking error as of quarter end was 2.18%.
- The risk profile of the Fund has been positioned at the lower end of the target range as a result of the increased uncertainty regarding the US/China trade dispute and the risk of a broad-based economic slowdown.

### Market Background

20. Global economic growth has continued to soften during the quarter, although leading indicators have shown some signs of stabilisation

21. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions

22. In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit.

23. Global inflation remains low, wage growth appears contained and interest rate expectations fallen.

24. There has been a modest appreciation in global equity markets (MSCI ACWI) with a total return of 1.1% (in sterling terms) during the quarter. Developed markets (+0.7%) underperformed Emerging Markets (+3.5%)

25. Value stocks failed to maintain their previous quarter's out-performance of quality stocks and momentum stocks continued to under-perform.
26. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.





## Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 31 December 2019  
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee  
Date of Meeting: 9 March 2020

Author: Jamie Roberts, Border to Coast CRM team  
Date: 17 February 2020

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### **Purpose of Report**

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q4 2019.
2. The Committee is recommended to note this report.

### **Important Information**

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## Background

3. Border to Coast launched this externally managed Fund on 17<sup>th</sup> December 2018.
4. The Fund invests primarily in listed equities of UK companies from which are included in the index.
5. The Fund combines differentiated strategies based on independent drivers of excess returns that are managed by specialist managers. The allocations to each strategy will reflect the alpha potential in addition to the beta opportunity for each underlying strategy and may change over time.
6. The Fund currently has a mid-cap growth bias with a focus on companies with disruptive models that can sustainably increase their market share.
7. The Fund's performance is expected to arise from both factor and stock selection decisions.

## Performance Objective

8. The Fund's objective is to outperform its FTSE All Share Index by at least 2% per annum over three year rolling periods.
9. The Fund aims to provide a benchmark tracking error relative to the Benchmark of between 2% to 5% 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 £1.3bn.

## Performance

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

	Since inception 17/12/18 % p.a.	Year %	Quarter %
Overall Fund	20.14	23.40	7.79
Benchmark	16.59	19.17	4.16
Actual Variance <sup>1</sup>	+3.56	+4.24	+3.63
Target Variance <sup>2</sup>	+2.00	+2.00	+0.50
Performance Relative to Target <sup>3</sup>	+1.56	+2.24	+3.13

### Note

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.

<sup>1</sup> Fund performance minus Benchmark performance

<sup>2</sup> Based on the Fund's Performance Objective

<sup>3</sup> Actual Variance minus Target Variance

\* Values do not always sum due to rounding

## Comments on Performance

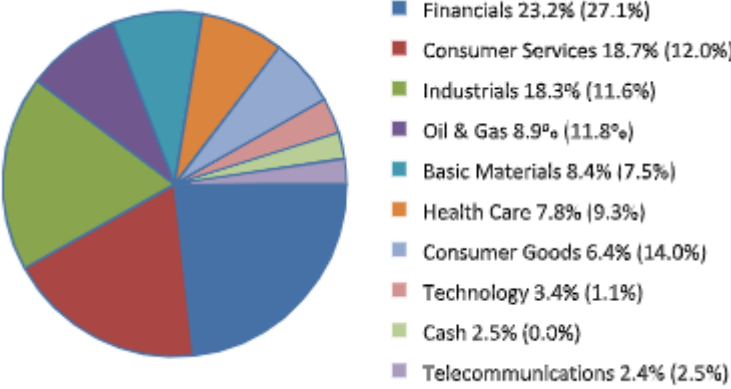
12. Overall Fund performance was above its target over Q4, and above target for the year and since inception.
13. The performance of the individual underlying managers of the Fund over Q4 was as follows:
- Baillie Gifford: Fund 9.14% vs Benchmark of 4.16%
  - Janus Henderson: Fund 16.15% vs Benchmark of 13.31%
  - UBS: Fund 4.27 % vs Benchmark of 4.16%
14. The UK stock market was buoyant during Q4 2019, as sentiment shifted towards a more positive global economic outlook for 2020 and political uncertainty began to fade. Globally, fears of contractions in manufacturing and service industries were reduced, helping to restore confidence that a recession is not imminent. US-China tensions also eased, and the Federal Reserve cut interest rates which further boosted stock prices. In the UK, stocks were boosted as Brexit uncertainty fears abated, following a general election victory for the Conservative Party.
15. From an industry perspective, UK sectors such as technology, industrials, financials and consumer services all out-performed the benchmark. The Fund is over-weight in these sectors, which has contributed to out-performance. UK utilities also strongly outperformed as the possibility of nationalisation reduced.
16. The Fund's performance was consistently positive over the quarter. In particular, the Fund experienced strong returns following the conclusion of the general election on 12 December 2019, with small and mid-cap stocks posting a sharp recovery.
17. The Fund remains well positioned to weather the impact of Brexit with both the small-cap over-weight and the high degree of overseas earners providing potential upside. Whichever scenario prevails it should restore a degree of certainty to the macro-economic environment and allow company fundamentals to drive share prices. We believe that the Fund's focus on stock selection and diversified style exposure will be much more suited to this type of environment.
18. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Royal Dutch Shell (A) (u/w)	0.37	3.95	0.35	Announced asset impairments and weaker refining margins.
Aveva (o/w)	1.92	0.12	0.35	Strong H1 2019 revenues during Q4, due in part to new solutions
Trainline (o/w)	2.10	0.10	0.28	General election reduced prospects of railway nationalisation
Rightmove (o/w)	2.82	0.23	0.27	The company benefitted from reduced Brexit uncertainty
Unilever (u/w)	0.44	1.99	0.25	Issued a sales warning due to a slowdown in South Asia
Hargreaves Lansdown (o/w)	1.69	0.22	-0.18	The stock struggled due to fallout from the Woodford scandal
Ocado (o/w)	2.02	0.24	-0.14	Investors disappointed with the structure of a £600m bond
Man Group (o/w)	1.05	0.10	-0.13	Missed targets for Q3, and investors expect outflows in Q4
3i (o/w)	1.76	0.44	-0.12	Investment in Action (discount Euro retailer) had missed targets
Prudential (u/w)	1.12	1.58	-0.11	The firm's stock rallied following the de-merger from M&G

Source: Northern Trust & Border to Coast

**Portfolio Structure**

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



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

Source: Northern Trust

20. Notes:

- Industrials (o/w) – partially driven by stock selection within our small cap allocation, where industrials are a significantly larger index weight.
- Consumer Services (o/w) – over-weight position capturing the theme of disruptive, capital-lite businesses attempting to reshape traditional industries.
- Technology (o/w) – driven by an over-weight position in software and services – targeting innovative, high-growth businesses that are not well represented in the UK benchmark.
- Consumer Goods (u/w) – as a counterpart to the Consumer Services over-weight, the Fund has a large under-weight in tobacco due to potential ESG concerns and expensive valuations.
- Financials (u/w) – under-weight as a result of the sector being dominated by large banks with significant UK economic exposure, for which we are materially under-weight. Preference for disruptors and financial services providers (e.g. asset managers).
- Utilities (u/w) – concerns over long-term sustainability of businesses and risk of regulatory interference warrant an under-weight position. (0% allocation to utilities at the end of the quarter)

**Risk Profile**

21. 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.

22. Both the ex-post and ex-ante tracking error as of quarter end are within the target, standing at 4.72% and 4.89% respectively.

## **Market Background**

23. Global economic growth has continued to soften during the quarter, although leading indicators have shown some signs of stabilisation
24. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions
25. In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit.
26. Global inflation remains low, wage growth appears contained and interest rate expectations fallen.
27. There has been a modest appreciation in global equity markets (MSCI ACWI) with a total return of 1.1% (in sterling terms) during the quarter. Developed markets (+0.7%) underperformed Emerging Markets (+3.5%)
28. Value stocks failed to maintain their previous quarter's out-performance of quality - but momentum stocks continued to under-perform.
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