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BCPP JOINT COMMITTEE

AGENDA

Venue: **Virtual Meeting**

Date: **Thursday 1 October 2020**

Time: **10.00 am**

Membership:

Chair:-

Cllr Tim Evans	Surrey Pension Fund

Vice Chair

Cllr David Coupe	Teesside Pension Fund

Membership:-

Cllr Doug McMurdo	Bedfordshire Pension Fund
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 Patrick Mulligan	North Yorkshire Pension Fund
Cllr Mick Stowe	South Yorkshire Pension Fund
Cllr Eileen Leask	Tyne & Wear Pension Fund
Cllr John Horner	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

*11	**Standing Item - Update on Emerging Matters (Verbal) - Rachel Elwell/Fiona Miller and Ian Bainbridge (for information and discussion)** **(Exemption Paragraph 3)**	Verbal

Date of Next Meeting - Tuesday 24th November 2020

Minutes of the Border to Coast Joint Committee

Tuesday 16 June 2020 - Virtual Meeting

Present

Members	Councillor Doug McMurdo (Chair) Councillor David Coupe, Councillor Mark Davinson, Councillor Tim Evans, Councillor Richard Meredith, Councillor Patrick Mulligan, Councillor Bob Stevens, Councillor Mick Stowe, Councillor Eddie Strengiel, Councillor Anne Walsh and Councillor Mel Worth
	Deirdre Burnet and Nicholas Wirz (Scheme Member Representatives)
Border to Coast Ltd Representatives	Daniel Booth, Rachel Elwell, Chris Hitchen, Fiona Miller, Andrew Stone and Graham Long
	Councillor Jeff Watson and Councillor John Holtby, Shareholder non-executive directors on BCPP Ltd's Board of Directors
Fund Officers	Amanda Alderson, Ian Bainbridge, Alison Clark, Paul Cooper, Kevin Dervey, Clare Gorman, Neil Mason, Julie McCabe, Victoria Moffett, Tom Morrison, Nick Orton, Jo Ray, Gill Richards and Craig Tyler
Statutory Officer Representative(s)	George Graham
Apologies were received from	Councillor Eileen Leask

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting. Apologies were noted as above.

There were no declarations of interest.

2 MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON 9 MARCH 2020

RESOLVED – That the minutes of the meeting held on 9th March 2020 be agreed and signed by the Chair as a true record.

3 COVID 19 (FOR INFORMATION & DISCUSSION)

R Elwell informed the Committee that all Border to Coast staff were working from home. She thanked the Border to Coast team, pensions officers and advisors for how they had responded to the challenges presented.

The Chair, on behalf of the Joint Committee, thanked Border to Coast officers for how well they had transitioned to home working.

4 ANNUAL ELECTION OF COMMITTEE CHAIR AND VICE-CHAIR. ANNUAL NOMINATION TO THE BORDER TO COAST BOARD - IAN BAINBRIDGE (FOR INFORMATION AND READ ONLY)

I Bainbridge informed the Committee that the original intention had been to run a selection process for the posts of Chair, Vice-Chair and the nomination of a NED in the next few days but, because of the number of candidates that had come forward, the position had changed.

As members had been informed by email the previous week the following nominations had been received:

Chair – Cllr Tim Evans
Vice-Chair – None
NED – Cllr Anne Walsh

It was proposed to accept the nominations of Cllrs Evans and Walsh.

With regard to the position of Vice-Chair there were two options – to run the process again or to try and resolve the situation today if someone would put themselves forward.

Cllr Coupe noted that he was prepared to put himself forward.

C Hitchen thanked the retiring Board member, Cllr J Watson, who had done a sterling job during his time on the Board.

The Chair also thanked Cllr Watson on behalf of the Joint Committee.

A vote was taken and the three nominations were unanimously accepted.

Cllr Worth proposed a vote of thanks to Cllr McMurdo for all his hard work as Chair of the Committee during the last two years. C Hitchen echoed those thanks on behalf of Border to Coast.

RESOLVED – That:

i) Cllr Tim Evans be appointed Chair of the Joint Committee for the ensuing year.

ii) Cllr David Coupe be appointed Vice-Chair of the Joint Committee for the ensuing year.

iii) Cllr Anne Walsh be the Committee's nomination as a Non-Executive Director to the Border to Coast Board.

5 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE (FOR INFORMATION & READ ONLY)

The Committee considered a report which set out the final spend against its 2019/20 budget and the position of the 2020/21 budget.

RESOLVED – That the Committee:

i) Note the final spend of its budget in 2019/20 was £14,000 against a budget of £40,000.

ii) Note the position of the 2020/21 budget.

6 BORDER TO COAST MARKET REVIEW - DANIEL BOOTH (FOR INFORMATION & READ ONLY)

A report was submitted to provide an overview of 2020 market performance and environment.

The report was for information and was taken as read. The Chair invited the Committee to contact D Booth, the author of the report, if they had any questions.

RESOLVED – That the report be noted.

7a LISTED EQUITY FUND PERFORMANCE REPORT - DANIEL BOOTH (FOR INFORMATION & DISCUSSION)

A report was considered which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over Q1 2020.

It was reported that performance was above the benchmark for Q1 2020 and continued to meet the performance objective over longer periods.

There had been a sharp fall in equity markets caused by the national lockdown resulting from the Covid-19 crisis. The market was also significantly affected by the fall of commodity prices, especially the sharp drop in oil prices.

Although the Fund was impacted by market falls it had benefitted relative due to a number of factors which were detailed within the report.

RESOLVED – That the report be noted.

7b OVERSEAS DEVELOPED EQUITY FUND PERFORMANCE REPORT - DANIEL BOOTH (FOR INFORMATION& DISCUSSION)

A report was submitted that summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q1 2020.

The Committee noted that overall Fund performance was above its target over Q1 and was above benchmark since inception.

The performance of the individual regional sleeves of the Fund over Q1 were detailed within the report.

Members were informed that the Covid-19 crisis had caused a sharp market fall which had a particularly negative impact on Pacific ex-Japan, specifically Hong Kong, Australia and Korea.

RESOLVED – That the report be noted.

7c EMERGING MARKETS EQUITY FUND PERFORMANCE REPORT - DANIEL BOOTH (FOR INFORMATION AND DISCUSSION)

The Committee considered a report which summarised the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q1 2020.

It was noted that the Fund was above the benchmark for Q1 2020 but was below the benchmark and target since inception.

The Covid-19 crisis had caused sharp market falls, which initially significantly impacted China before spreading to Asia, the Middle East and Latin America.

Although the Fund was impacted by the market falls, it benefitted relatively due to several factors which were detailed within the report.

Members were informed that the Fund's risk profile was higher compared to the other internal sub-funds but was still relatively low for an active Emerging Markets fund. It was unlikely that there would be any material change to the Fund's construction in the short term.

RESOLVED – That the report be noted.

7d UK LISTED EQUITY ALPHA FUND PERFORMANCE REPORT - DANIEL BOOTH (FOR INFORMATION & DISCUSSION)

The Committee considered a report which summarised the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q1 2020.

It was reported that the Fund's performance had been disappointing over Q1, and was now below the benchmark over the past year and since inception. It was believed that the majority of the relative underperformance had been driven by Covid-19 related impacts.

The heightened volatility of equity markets caused by Covid-19 reduced the influence of strong company fundamentals on share prices. As a consequence extreme market movements had been seen which drove prices down throughout the quarter.

RESOLVED – That the report be noted.

Exclusion of the Public and Press

8 STERLING INVESTMENT GRADE TRANSITION - DANIEL BOOTH (FOR INFORMATION & DISCUSSION)

A report was submitted which described the main elements of the Sterling Investment Grade transition and addressed the following questions:

- What was the outcome in terms of fund performance?
- What was the outcome in terms of implementation shortfall?
- What were the principal causes of the outcome?
- What was the impact of markets on pre-trade plans?
- What progress had been made since the handover to managers?
- What lessons had been learned?

RESOLVED – That the Committee note the conclusions of the Sterling Investment Grade transition.

9 POOLING PROPERTY ASSETS - DANIEL BOOTH (FOR INFORMATION AND DISCUSSION)

A report was considered that provided an update on work carried out to date on the design of, and business case for, pooling property assets.

It was noted that there remained work to be done to agree a final design as collaboration continued with Partner Fund officers and advisors.

Whilst progress was being made on agreeing the final design, officers from Border to Coast were continuing to work with Partner Funds to address questions and areas of concern; these were detailed within the report.

Members were reminded that the property pooling project had been underway for over a year. The current working hypothesis was that Partner Fund needs (cost effective, risk adjusted return and income profile) could be met by the launch of two property funds, details of which were contained within the report.

Extensive work had been completed to show the initial analysis of costs and savings for pooling property assets for all Partner Funds. The initial findings had been shared with pensions officers to enable understanding and challenge on the assumption and calculations. The business case was summarised in Section 4 of the report.

The Joint Committee were asked to recommend to Partner Fund Pension Committees to bring forward funding of c. £800,000 to procure expertise to assist in several areas.

The Committee had a lengthy discussion on all aspects of the report.

RESOLVED – That the Joint Committee:

i) Note the progress made to date on the design and business case for pooling property and the ongoing work to complete the design phase to enable Partner Funds to commit to the pooling solution. It was also noted that this was likely to be ready for final Pension Committee approval (subject to due diligence) by Q1 2021.

ii) Recommend to Partner Fund Pension Committees (or their officers as appropriate) to bring forward funding of c. £800,000 (c. £75,000 per Partner Fund) to procure expertise to assist with several areas of the project as detailed within the report.

10 CEO REPORT MAY 2020 - RACHEL ELWELL (FOR INFORMATION AND DISCUSSION)

R Elwell presented her CEO report for the period since the last Joint Committee meeting.

The report contained:

- A progress update, including interaction with Partner Funds.
- A summary of risk positioning and performance of the launched funds.
- An update on fund launches.
- An update on progress from a corporate functions perspective and the expected outturn for the Operating Budget.

The Committee noted that the tracking analysis had been re-based following confirmation of the results of Partner Fund Investment Strategy Reviews and shareholder approval for Border to Coast's Strategy.

It was further noted that, from a risk perspective, the period had been dominated by the response to, and implications of, Covid-19. This was covered further within the report.

RESOLVED – That the Joint Committee note the update provided in the report.

11 UPDATE ON EMERGING MATTERS - RACHEL ELWELL, FIONA MILLER, IAN BAINBRIDGE

F Miller updated the Committee on collaborative work with other LGPS pools, especially in the area of tax status.

CHAIR

BORDER TO COAST PENSIONS PARTNERSHIP

BCPP Joint Committee

Date of Meeting: **1st October 2020**

Report Title: **Joint Committee Terms of Reference**

Report Sponsor: **Ian Bainbridge, Chair Officer Operations Group**

1.0 Recommendation

1.1 The Joint Committee is recommended to express its views on the terms of reference of the Joint Committee and how it operates.

2.0 Role of the Joint Committee

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

2.2 These terms of reference covered the period to the operational commencement (Phase 1) as well as post establishment and commencement of operations (Phase 2).

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

2.4 These terms of reference were initially agreed in 2017 (copy Attached for Phase 2), at a time when the approach to pooling was still in its infancy and they were subject to a review by a governance working party in early 2019. The conclusion was that they were considered to be reasonable and not in need of change. It was however, noted that they should be kept under review as arrangements within the Border to Coast pool mature and as guidance from MHCLG develops.

2.5 Now that the Joint Committee has been operating for over three years and Border to Coast is moving more to an operational phase it is considered to be appropriate and good practice to reconsider the objectives of the Joint Committee, the terms of reference and also how the Joint Committee operates in practice. This is supported by the Section 151 Officers and the Pension Fund Officers.

2.6 To initiate this process, some of questions we should consider include:

- What do we now consider the key objectives of the Joint Committee to be?
- Are the terms of reference consistent to help achieve the key objectives?
- How effective do we believe the Joint Committee is in meeting these objectives?
- What improvements could be made to make the Joint Committee more effective?

2.7 The Joint Committee's views are asked on the existing terms of reference, the issues noted above and any observations they may have on how the Joint Committee has been operating and suggest any areas of improvement.

2.8 When considering these issues we need to be clear that the Joint Committee is not intended to replace the role and responsibilities of the individual Funds Pension Committee's. The two need to be complementary.

2.9 Subject to any feedback, the intention is to gather further views, undertake a review and report back to the Joint Committee with any suggested changes.

Report Author:

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

Further Information and Background Documents:

Inter Authority Agreement

Appendix

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BORDER TO COAST PENSIONS PARTNERSHIP

Border to Coast Joint Committee

Date of Meeting: 1st October 2020

Report Title: Joint Committee Budget (for information and read only)

Report Sponsor: Ian Bainbridge, Chair Officer Operations Group

1.0 Recommendation

1.1 The Joint Committee is asked to note the position on the 2020/21 budget.

2.0 2020/21 Joint Committee Budget

2.1 At the Joint Committee meeting in March 2020 a budget of £40,000 was approved for 2020/21.

2.2 This Budget of £40,000 is consistent with previous years budgets and 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.

3.0 Expenditure to date

3.1 The only item of expenditure for the year to date is £2,500. This is for external legal advice to the Partner Funds in respect of work in negotiating changes to the shareholder agreement in relation to arrangements for making additional capital contributions, following an error by Border to Coast.

3.2 The only other items of expenditure being committed at present is in relation to the secretariat support to the Joint Committee from South Yorkshire Pensions Authority. The full year cost of this is estimated to be around £1,600.

4.0 Conclusion

4.1 The budget for 2020/21 has been set £40,000.

4.2 The current expenditure is within the Joint Committee Budget.

Report Author:

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

Further Information and Background Documents:

N/A

Border to Coast Pensions Partnership Ltd Joint Committee

Date of Meeting: 1st October 2020

Report Title: Responsible Investment update (for discussion)

Report Sponsor: Border to Coast CEO – Rachel Elwell

1 Executive Summary

1.1 This report provides an update to the Joint Committee on Responsible Investment (RI) activities and reporting carried out by Border to Coast.

1.2 Border to Coast considers transparency and disclosure as key to communicating Responsible Investment (RI) activities to Partner Funds, beneficiaries and other stakeholders. We do this by disclosing our voting activity quarterly and producing quarterly and annual Stewardship reports, which are published on our website.

1.3 We published our second Annual Responsible Investment and Stewardship Report in July. This document is intended to demonstrate the activities and work undertaken over the year, showing our commitment to active ownership. The Financial Reporting Council (FRC) published the revised UK Stewardship Code ('the Code') which came into effect from 1st January 2020. The new Code is substantially more ambitious than its predecessor and signatories will be expected to report against the new Code from 2021. This year's report has moved towards the expectations of the Code and we have identified the steps we need to take to meet the reporting requirements for next year.

1.4 Border to Coast is a supporter of the Task Force on Climate-related Financial Disclosures. This year we took the first steps in applying the recommendations by voluntarily reporting against the TCFD requirements and publishing our first TCFD report. The report is split into four sections: Governance, Strategy, Risk Management, and Metrics and Targets. This is also available on our website.

1.5 Border to Coast became a signatory to the UN Supported Principles for Responsible Investment (PRI) in October 2019, this allows us to publicly demonstrate our commitment to responsible investment. The six Principles are voluntary and aspirational and for most signatories' commitments are a work-in-progress.

1.6 Signatories must report annually using the PRI Reporting Framework, reporting on asset specific modules which incorporate detailed assessment indicators on Responsible Investment implementation. This is our first year as a signatory and as such was not mandatory that we report; however, we made the decision to report in preparation for 2021 to identify any areas for improvement.

1.7 Responses are assessed and results compiled into an Assessment Report and Transparency Report. We reported on four modules and the results were above or in-line with the median score for the module (A's and A+'s) – a result with which we are particularly pleased given our relative youth and it being our first year of reporting.

1.8 The Responsible Investment policies are reviewed annually and the process for the 2020/21 review is currently in progress. Proposed revisions have been shared with Partner Funds for comment and feedback. Revised policies need to be in place ahead of the 2021 proxy voting season.

1.9 Ahead of the November Joint Committee where these will be reviewed, we will be holding two pensions officer RI workshops and an elected member workshop. We are particularly keen to review progress against the RI strategy agreed with Partner Funds in 2019 and whether this strategy remains reflective of Partner Funds' objectives.

2 Recommendation

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

3 Annual Responsible Investment and Stewardship Report

3.1 Border to Coast are strong advocates of Responsible Investment and supporting our Partner Funds with their RI activities, enabling them to fulfil their stewardship obligations. We consider transparency and disclosure as key to communicating our RI activities to Partner Funds, beneficiaries and stakeholders.

3.2 We currently publish a Stewardship Quarterly on the website which covers voting highlights, engagement and RI activities undertaken during the quarter (see Appendix I). The Annual RI Report demonstrates the work that has been undertaken over the course of the year and acts as a showcase for our achievements (Appendix II).

3.3 The UK Stewardship Code, of which Border to Coast is a Tier 1 signatory, was substantially revised last year with the new Code taking effect from 1st January 2020.

3.4 The scope of the Code has broadened to cover other asset classes, including fixed income and private markets. It has also become much more outcomes based with signatories expected to explain how they have implemented stewardship, with a focus on reporting activities and outcomes.

3.5 Gap analysis has been conducted to determine what work needs to be done to be able to report in-line with the Code next year. This year's report has developed to meet some of the reporting expectations this year, with the aim to be fully compliant for the 2021 report. It covers our approach to RI and includes details on how we manage climate risk, voting, details on engagement and collaborative initiatives we support. The Annual RI Report can be found on the website.

3.6 The FRC has reviewed early reporting against the new Code by asset owners and asset managers this year and is publishing a report with observations. The FRC has selected excerpts from our Annual RI report which they class as good examples of reporting for possible inclusion. A call is to be scheduled with the FRC to provide detailed feedback and identify areas we need to focus on.

4 TCFD Report

4.1 Border to Coast considers climate change to be a systemic risk with the potential to impact long-term shareholder value. As investors it is imperative that we have greater clarity from companies as to how they are managing climate risk. The TCFD recommendations provide investors with a reporting framework to assess companies' responses. Therefore, the decision was taken prior to launch to become a supporter of the TCFD recommendations.

4.2 The expectation is for supporters of the TCFD to also report in-line with the recommendations and this is the first year that we have produced a report. The TCFD recommends reporting on four thematic areas that represent core elements of how an organization operates:

- **Governance** – setting out the respective roles of the board and management team in managing risks and opportunities.
- **Strategy** – identifying risks and opportunities over different time horizons and explaining how these impact strategic and financial planning.
- **Risk Management** – having processes in place for managing identified risks and including these within the overall risk management framework.
- **Metrics and Targets** – explaining how both climate change impact and exposure to risks are measured, setting targets and tracking ongoing progress.

4.3 A substantial amount of work went into producing the report, with support from colleagues across Border to Coast, which can be found on our website (Appendix III).

5 PRI reporting update

5.1 Border to Coast became a signatory to the UN-supported Principles for Responsible Investment in October 2019. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles offering a framework of possible actions for incorporating ESG issues into investment practice. The only mandatory requirement is to publicly report on responsible investment activity through the Reporting Framework.

5.2 It is voluntary to report in an organisation's first full reporting cycle, however, the PRI encourages signatories to report during the voluntary year for learning purposes. We made the decision to complete the Reporting Framework and to use it as a learning process to identify areas where we can develop and improve.

5.3 Responses are assessed and results compiled into an Assessment Report and Transparency Report. Each module is scored and given a performance band graded from E (lowest) to A+. Assessment Reports are confidential and not shared with other signatories, whereas Transparency Reports can be accessed on the PRI website and are available to signatories.

5.4 The Reporting Framework consists of a number of asset-specific modules. We reported against four modules: strategy and governance, listed equity, listed equity – incorporation, and listed equity – active ownership.

5.5 A summary of all the completed module scores is presented in the following Summary Scorecard against the median scores of all PRI signatories:

Summary Scorecard

AUM	Module Name	Your Score	Your Score / Median Score
	01.Strategy & Governance	A+	A
Indirect - Manager Sel., App. & Mon			
10-50%	02. Listed Equity	A	A
Direct & Active Ownership Modules			
>50%	10. Listed Equity - Incorporation	A	A
>50%	11. Listed Equity - Active Ownership	A+	B

Module Score (%)	Performance Band
>95%	'A+'
76-94%	'A'
51-75%	'B'
26-50%	'C'
1-25%	'D'
0	'E'

5.6 The Strategy and Governance module covers Border to Coast's overarching approach to Responsible Investment such as governance, RI Policy(ies), ESG resourcing, collaborations, objectives and targets and communication. We scored an A+ or 100% in this module demonstrating a strong set of RI/ESG policies which have been made public along with areas such as setting ESG objectives, joining RI collaborations and reviewing climate change at climate change risks and opportunities.

5.7 The Indirect Listed Equity module covers how we select, appoint and monitor our external managers. Given the reporting period it currently only covers UK Equity Alpha but in the following reporting cycles it will also cover Global Equity Alpha, private markets and fixed income. We scored an A or 94% in this module (37/39). This is very close to the 95% required for an A+. Full marks were achieved for the selection and appointment processes for our external managers and we were also above the median score for monitoring processes.

5.8 The Direct Listed Equity module covers our approach to integrating ESG into our internally managed listed equity assets. We scored an A or 81% in this module (17/21). We scored very strongly on the advanced questions in this module about the types of ESG information used in the investment decision and research process and how information from engagements and voting is made available to the investment team.

5.9 The Listed Equity Active Ownership module covers our engagements via collaborations and service providers as well as our approach to voting. We scored an A+ or 96 % (84/87). This is a particularly high score for this module sitting in the top 5% of all new signatories. We scored particularly highly for the engagement work Robeco are doing on our behalf including how objectives are set and monitored throughout the engagement. We were also able to report how we feed into the engagement themes selected by Robeco, which is best practice. We were also recognised as having a thorough and public voting policy including an escalation process for shareholder resolutions.

5.10 Overall, this is a real achievement considering we have only been operational for just over two years and demonstrates the work that has been done across the organisation, developing policies and processes which have been implemented. Areas have been identified from the PRI reports for improvement which we will be working to address over the coming year.

6 Annual RI policies review

6.1 The Responsible Investment Policy and Corporate Governance Guidelines are reviewed annually. The process kicked off in July with Robeco evaluating both policies using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks.

6.2 The draft policies have been shared with the officers at Partner Funds for comment and feedback and are to be discussed at a workshop in late September. Other topics for discussion and potential consideration for future policy reviews includes exclusions.

6.3 There is a dedicated section covering climate change in the current RI Policy. With increasing regulations and pressures on Partner Funds the decision has been taken to develop a standalone climate change policy. Due to the work required this will be done outside the normal policy review cycle.

6.4 The revised policies will go to the Border to Coast Board in November for approval. After which they will be presented to this committee for review and comments on the proposed revisions, also to recommend taking the revised policies to the Partner Funds for them to consider adopting the principles in their own policies.

6.5 The annual review and governance processes need to be completed, with policies approved by pension committees so that they are ready to be implemented ahead of the 2021 proxy voting season.

7 RI Strategy

7.1 In November 2019, we agreed with Partner Funds the strategic development with respect to Responsible Investment for the period 2020 to 2023 (as summarised in Appendix IV). Over the coming months, as part of the annual RI policy review, we are keen to consider whether this remains reflective of Partner Fund expectations. This will enable us to assess the resources required to implement any further developments ahead of the annual shareholder approval for Border to Coast's business plans.

7.2 This will be discussed further with Partner Fund officers and chairs during workshops planned over the coming months.

8 Risks

8.1 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering our partner funds' objectives. There may be reputational risk if we are perceived to be failing in our commitment of this objective.

8.2 As an organisation we are committed to being transparent regarding our RI activities, this includes producing an Annual Responsible Investment and Stewardship Report and TCFD report. There may be reputational risk if we are perceived to be failing in our commitment of this objective.

9 Conclusion

9.1 The Joint Committee is asked to note the report.

10 Author

Jane Firth, Head of Responsible Investment
22 September 2020

11 Supplementary Papers

I. Quarterly Stewardship Report Q2 2020
II. Annual Responsible Investment and Stewardship Report 2020
III. TCFD Report 2020
IV. Border to Coast RI strategy 2020-23

Border to Coast Pensions Partnership

Quarterly Stewardship Newsletter

Q2 2020

Appendix A

What Responsible Investment means to us

Border to Coast operates collective investment vehicles covering a comprehensive set of asset classes in which the eleven Local Government Pension Scheme Funds who are our customers and shareholders ('Partner Funds') can invest to implement their strategic asset allocations.

We aim to make a positive difference to investment outcomes for our Partner Funds by delivering cost effective, innovative and responsible investment, thereby enabling sustainable, risk-adjusted performance over the long-term.

Sustainability

We are a strong advocate of Responsible Investment (RI) and believe that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors.

Indeed, integrating environmental, social and governance (ESG) factors into our analysis helps us identify broader risks, which leads to better informed investment decisions and improved risk-adjusted returns.

Active Ownership

As a long-term investor and representative of asset owners, we practice active ownership by holding companies and asset managers to account on environmental, societal and governance (ESG) issues that have the potential to impact corporate value. We also use our shareholder rights by voting at company meetings, monitoring companies, engagement and litigation.

Our approach to RI and stewardship is set out in our RI Policy and the Corporate Governance & Voting Guidelines, both of which can be viewed on our website.

What we've been doing this quarter

This quarter, we launched our second Annual RI Report and published our first Task Force on Climate-related Financial Disclosure (TCFD) report, which sets out our approach to managing climate-related risks and opportunities within the four thematic areas set out by the TCFD.

In May, Border to Coast launched a search for an external manager for a specialist China equity manager to supplement its existing Emerging Market Equity Fund. The fund, which is currently wholly managed internally, is expected to allocate around a third of its assets to the specialist China manager.

Our CEO, Rachel Elwell, was featured in the Financial Times in June with an interview on 'protecting the pensions of front line workers'. Rachel has also spoken to Professional Pensions and Room151 on LGPS pooling and the challenges COVID-19 brings.

Jane Firth, Head of Responsible Investment, took part in a discussion on Asset TV where she shared how we are engaging with corporates, the impact on the voting season and why Coronavirus has made the S in ESG more important than ever.

In June we held the regular RI workshop for the Partner Funds' officers, taking the opportunity to update on the impact the pandemic has had on the peak voting season.

A statement was issued by global investors and signed by Border to Coast for consideration at Total's AGM in May. This was supported by 25 investors with over $10 trillion in assets under management, all signatories are involved in Climate Action 100+. The statement recognised Total's announcement and ambition to achieve net zero by 2050 and also requested that Total provide regular updates on its targets and progress to achieving them.

We see deforestation and the associated impacts on biodiversity and climate change as systemic risks to our portfolios and as long-term investors we need to be using our influence to encourage action at both government and corporate level. We therefore made the decision to sign a letter, along with 28 other investors, asking for the government of Brazil to show clear commitment to eliminating deforestation. This was sent to nine Brazilian embassies and has received media coverage in the Financial Times with meetings arranged with Brazilian Government representatives.

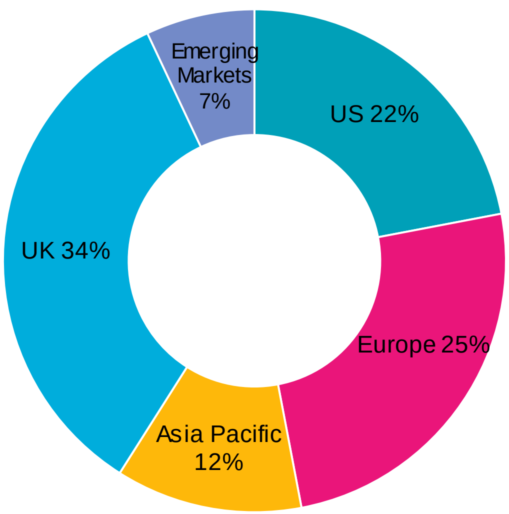
Throughout the quarter Border to Coast representatives attended and participated at a number of webinars and Responsible Investment events virtually. This included the Cross Pool RI Group, the UK RI Roundtable and the LAPFF quarterly Business Meeting which, for the first time, was held via webinar.

Voting Activity Q2 2020

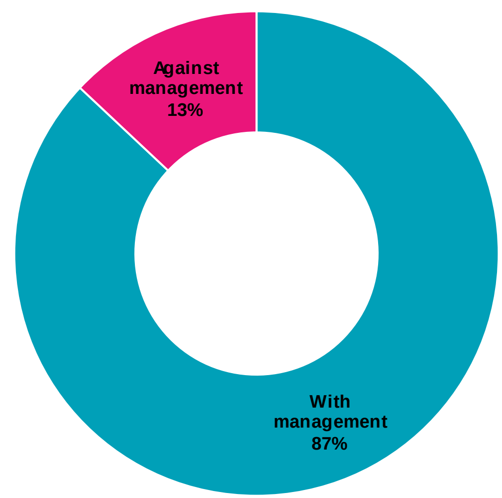
In Q2 2020 we voted at 517 meetings on 7,870 agenda items. We voted against management at 71% of meetings on at least one resolution.

At the beginning of the past quarter, uncertainty around the impact of the Covid-19 pandemic on the 2020 AGM season was still widespread. Fortunately, as we move past the busiest part of the proxy voting year, we see that many of these concerns did not materialise although there were undoubtedly some relatively significant changes. One of these was the backloading of meetings from April and May, into June with over 1,000 meetings being cancelled or postponed resulting in an even busier peak period at the end of the quarter.

Shareholder meetings voted by region



Resolutions voted with/against management



Emerging voting issues in Q2 2020

2020 AGM Season

The Covid-19 crisis has restricted physical attendance at AGMs in almost all markets, and has forced companies to delay their meetings, reorganise them as online events, or stage them behind closed doors, depending on the emergency regulations passed. The total number of AGMs registered to take place in Q2 2020 fell by 7% compared to last year. However, a significant number of meetings were rescheduled from April/May to June, which is already one of the busiest months. This meant that June was exceptionally demanding for investors.

The dialogue at AGMs has also shifted because of the crisis. With markets and economies in distress, many companies have run into significant financial challenges. Some have had to reduce capital expenditure budgets, cut dividends, apply for state aid and/or adjust their financial guidance.

This has led to a debate about the sustainability of dividend policies and whether bonus payouts are acceptable during a financial crisis. Many European financial organisations have been advised to cancel or postpone their dividends, even if they were sufficiently solvent and profitable, to maintain their capital allocation policies.

While we usually expect companies to put their dividend policy to a shareholder vote, due to the extraordinary challenges companies are facing we have taken a more lenient approach where boards have provided convincing rationale for withdrawing dividend proposals.

We note also that many compensation proposals were backward looking over 2019. Investors will only be able to fully judge decisions made in 2020 at next year's AGMs.

This year has seen a record number of environmental and social proposals passed at AGMs with majority support. Although advisory in nature this sends a strong signal to management. There has been a multifaceted approach to climate-related resolutions with calls for Paris Agreement alignment, climate lobbying, and banks' financing of emission-intense industries. Resolutions across markets have received notable support.

EU Shareholder Rights Directive

The first wave of 'say on pay' proposals in Europe resulting from remuneration votes before the 2020 AGM season saw several companies have their policies voted down. We believe that the new regulation will move companies towards remuneration practices that garner greater shareholder and societal support.

Quarterly Votes by Fund

	UK Listed Equity	Overseas Developed	Emerging Markets	UK Equity Alpha	Global Equity Alpha
Meetings:	78	231	78	109	107
Items Voted:	1,476	3,513	813	2,014	1,686
Approx. size (bn):	£3.5	£2.5	£0.6	£1.0	£4.0

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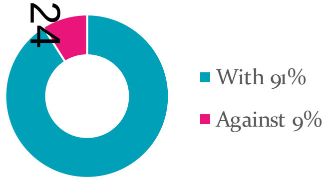
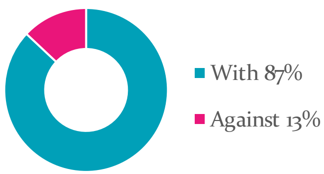
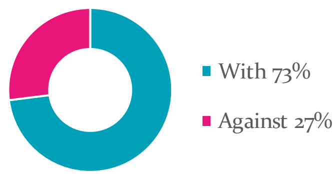
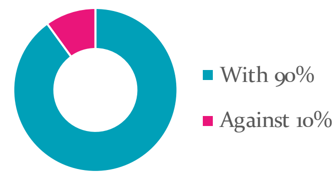
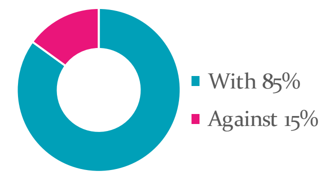
Votes with/against management



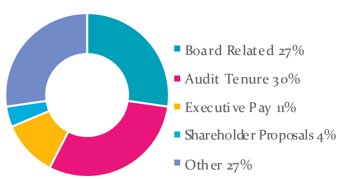


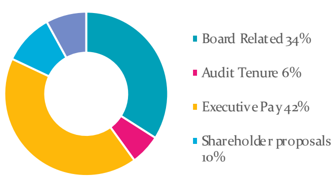


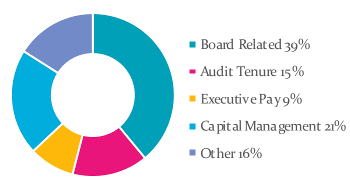


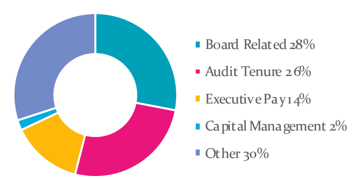


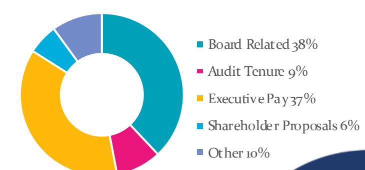
Resolutions against by category











Q2 2020 Voting Highlights

Barclays plc

At the 2020 AGM both management and shareholders put forth separate climate proposals, an unprecedented occurrence. Having engaged with Barclays' Chairman and the shareholder resolution's proponent, we supported the management resolution regarding the bank's climate change strategy (99.93% support) and abstained on the shareholder proposal (24% support).

Chevron Corp.

At the 2020 AGM we voted against a shareholder resolution on lobbying activities that was filed in order to undermine a genuine shareholder resolution on the issue. Under SEC rules organisations are allowed to exclude resolutions with similar wording, unfortunately the genuine resolution filed by a shareholder advocacy organisation was rejected. The proposal failed to pass, only gaining 29% support from shareholders.

Exxon Mobil Corp

In May 2020 we voted against the Lead Director and the CEO as we see the company's failure to address climate change as a structural issue. Exxon has been a laggard on climate issues, exemplified last year when the company blocked a shareholder proposal calling for the company to report on the alignment between its strategy and the Paris Agreement. At the AGM on average, 93.6% of the votes were cast for the directors nominated.

Q2 2020 Voting Highlights

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Woodside Petroleum

We supported two resolutions put to the April AGM by the Australian Centre for Corporate Responsibility related to climate change practices. The resolutions requested disclosure of how the company's strategy is aligned with the Paris Agreement, and a review of the company's lobbying activities on climate change. The resolutions received 51% and 43% support respectively. Neither vote is binding but this is seen as a breakthrough moment for climate change action in Australia.

Tesco plc

The June AGM saw Tesco receive a significant vote against its advisory vote on pay with 67% of shareholders voting against the resolution. The defeat of the advisory vote is one of the largest shareholder revolts in UK corporate history. The main concern was amendments made by the Remuneration Committee and the exclusion of online grocer Ocado from peer benchmarking, which boosted the long term incentive payout for both the CEO and Finance Director. The vote is advisory, meaning that executives will still receive the payout, although a defeat marks an embarrassing failure for Tesco.

Alphabet Inc

Alphabet has been at the centre of debate on digital human rights with shareholders registering concerns over the company's human rights policies. A coalition of investors filed a resolution which was put to the June AGM calling the company to set up an independent committee at board level tasked with monitoring human rights risks in its products and value chain. Other shareholder resolutions files covered a range of issues including gender and racial pay equity and sustainability. We supported all the shareholder resolutions. None of the shareholder resolutions were approved.

Engagement Q2 2020

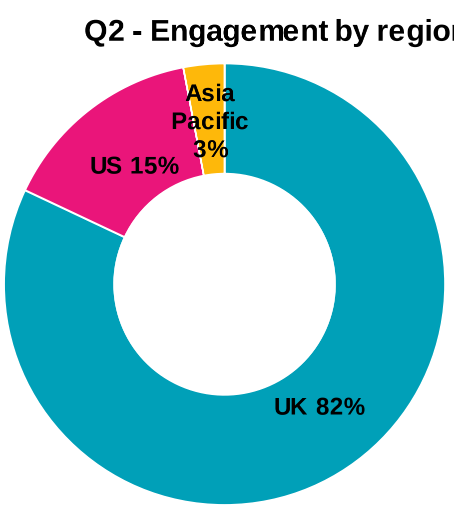
We believe that engagement is an important component of active ownership. Our engagement strategy includes several different strands to engaging with our investee companies:

- Our internal portfolio managers engage directly with companies within their portfolios.
- External managers engage with companies on our behalf (see page 10-11).
- Robeco as voting and engagement service provider engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 12).
- LAPFF conducts company engagement on behalf of its members on a wide range of issues (see page 13).
- We believe that we can increase our voice when working with other like-minded shareholders and have joined a number of RI initiatives compatible with our aims and beliefs.

Border to Coast meetings with investee companies

Our Portfolio Managers meet companies on a regular basis and address ESG issues where relevant. We met with 34 companies during the quarter.

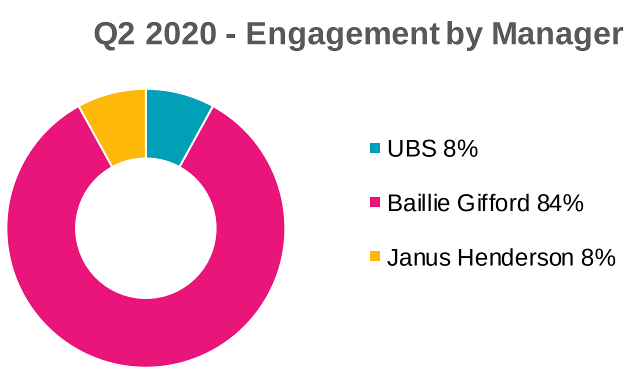
The meetings were via a combination of face to face meetings and conference calls to discuss issues such as business strategy, environmental performance and succession planning.

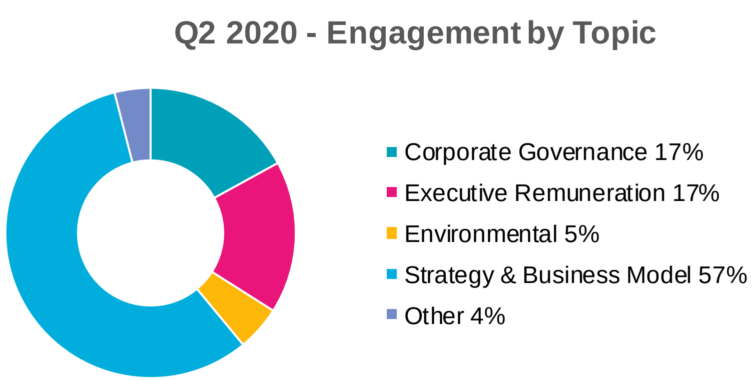


UK Equity Alpha Engagement Q2 2020

During the quarter our three external managers held engagement meetings with 36 companies. Meetings were held with company chairs, senior non-executive directors via calls, meetings and collective engagement.

A broad range of topics were covered including corporate governance, remuneration and environmental risk.

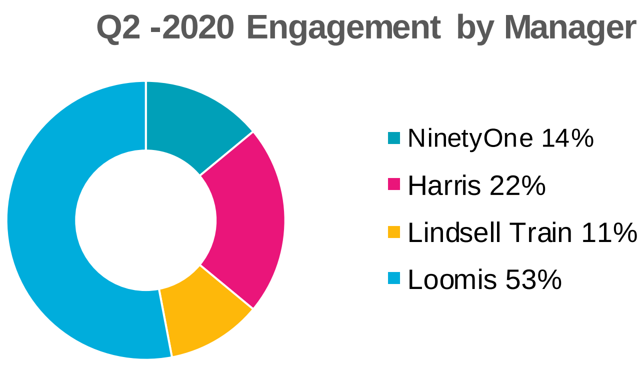


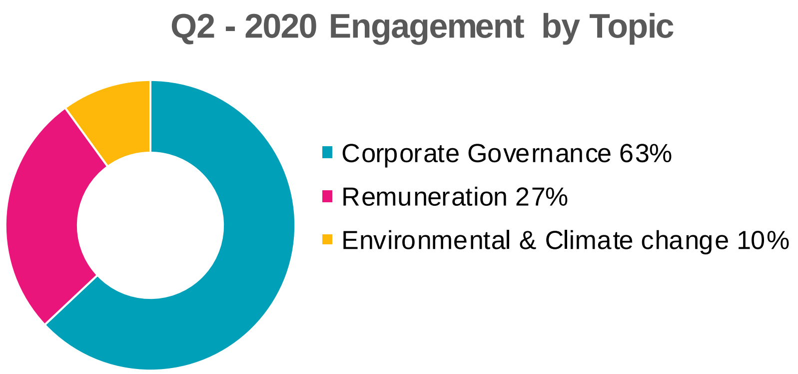


Global Equity Alpha Engagement Q2 2020

During the quarter our three external managers held engagement meetings with 36 companies. Meetings were held with company chairs, senior non-executive directors via calls, meetings and collective engagement.

A broad range of topics were covered including corporate governance, remuneration and environmental risk.





Robeco Engagement – Q2 2020

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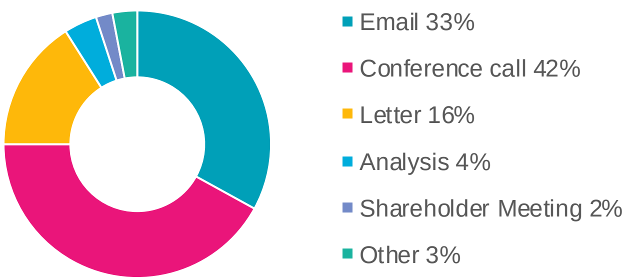
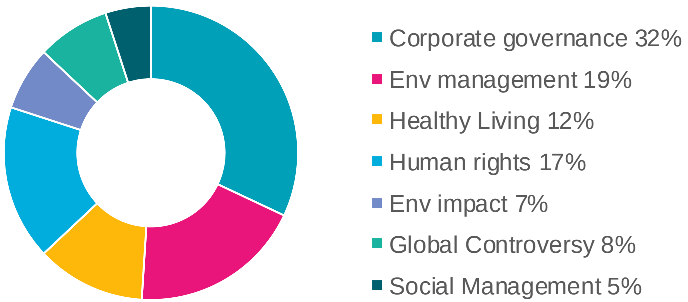
Robeco engages with companies on our behalf across all of the internally managed sub-funds. Over the quarter Robeco conducted 160 engagements with 84 companies. These took place by letter, meetings, conference call and email. Robeco's engagement is covered in greater detail in their Active Ownership Client Report Q2 2020, which can be found on our website.

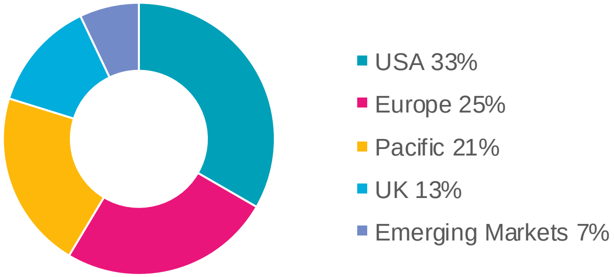
Company Engagement Activities



Engagement Overview by Topic



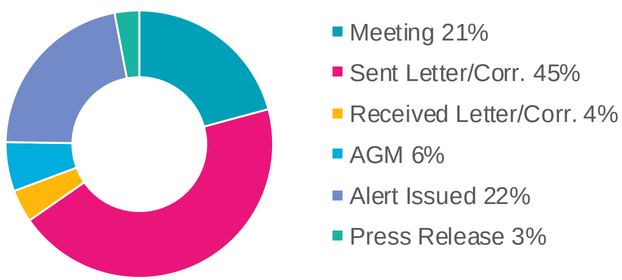
Engagement by Region



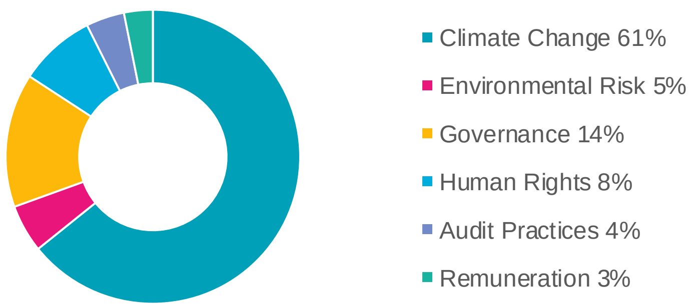
LAPFF Engagement – Q2 2020

LAPFF conducts company engagement on behalf of its members, LGPS and public sector funds, on a wide range of issues. LAPFF engaged with 70 companies over the quarter by a combination of letters and meetings. Issues engaged on included human rights, climate change, general governance and environmental risk.

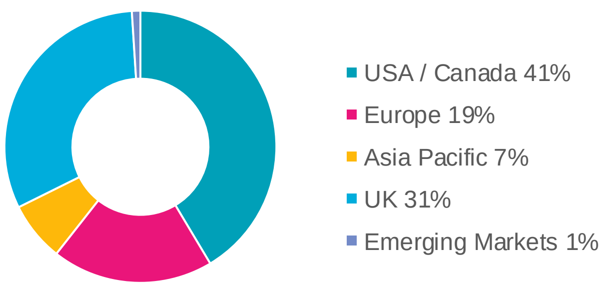
Company Engagement Activities



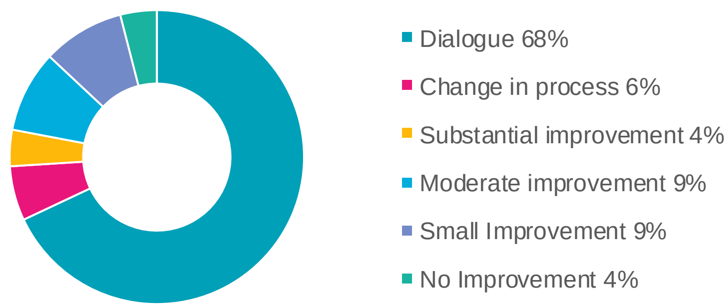
Engagement Overview by Topic



Engagement by Region



Engagement Outcomes



Engagement – RI Collaborations

Investor Mining and Tailings Safety Initiative

An announcement was made at the end of June that the Global Industry Standard on Tailings Management had been endorsed by the co-convenors of the Global Tailings Review, the UN Environment Programme, PRI and the International Council on Mining and Metals. This is the product of a rigorous independent process including multi-stakeholders. It establishes robust requirements for the safer management of both existing and new tailings facilities globally.

A global standard to drive best practice has been called for by people for decades. It took the Brumadinho disaster in January 2019 and the investor initiative calling for a new industry standard, to finally make this happen. Expectations are for all mining companies to comply with the framework. Investors have the responsibility to drive the implementation by incorporating the Standard into their active ownership strategies.

The Global Tailings Portal is live and companies are continuing to make disclosures following the coordinated engagement led by Robeco. At the time of publishing 97 mining companies have disclosed data covering 1938 tailings facilities.

The Workforce Disclosure Initiative (WDI) finalised the company engagement list and 750 companies have been contacted and invited to submit responses to the survey. Engagement is ongoing with investors encouraging companies to respond. The survey will be open for responses from early September. The impact of COVID-19 has seen companies taking different approaches to human capital management. This highlights the importance of collecting the right data to assess risks and risk management. The WDI is hosting several webinars and roundtables for signatories throughout 2020 covering workforce issues.

The TPI has released a carbon performance methodology paper on the mining sector following a consultation process and roundtable with companies. The paper assesses the carbon performance of the 10 biggest mining companies. A paper has also been produced on the European oil and gas sector analysing companies' commitments and targets to reduce carbon emissions.

External Collaboration

ROBECO
The Investment Engineers

Robeco is our voting and engagement partner. They work on ESG issues with the companies we hold, and vote on our behalf. This allows us to better fulfil our stewardship objective to be an active shareholder.

Partnerships allow us to collaborate with like-minded investors and bodies to create a stronger voice on ESG issues. We work with a number of RI partnerships which support our ESG areas of focus.

IIGCC Institutional Investors Group on Climate Change

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate Action 100+ Global Investors Driving Business Transition

Investor Mining and Tailings Safety Initiative

Local Authority Pension Fund Forum

WDi Workforce Disclosure Initiative

30% Club GROWTH THROUGH DIVERSITY

Transition Pathway Initiative

Disclaimer

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Suitable for professional clients only, regulated by the Financial Conduct Authority (FRN 800511).

Useful links

Border to Coast website

LAPFF

IIGCC

30% Club

Climate Action 100+

TCFD

Workforce Disclosure Initiative

Investor Mining and Tailings Safety Initiative

Transition Pathway Initiative

BORDER TO COAST PENSIONS PARTNERSHIP

BORDER TO COAST RESPONSIBLE INVESTMENT AND STEWARDSHIP REPORT 2019/20

Appendix B

Introduction

RESPONSIBLE INVESTMENT & STEWARDSHIP

Border to Coast was established by its Partner Funds to facilitate the pooling of their investments with the aim of improving value for money through scale, increased access to investment opportunities and strengthened governance.

As a customer-owned, customer-focused organisation, our long-term vision is to make a positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

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Discover more at **bordertocoast.org.uk**

Cover photos: Cumbria and Infinity bridge Stockton on Tees

Contents

Location: North Yorkshire

At a glance

Responsible Investment is at the centre of Border to Coast's corporate and investment philosophy. We believe that investing in sustainable companies and practising active stewardship will make a positive difference to long-term investment outcomes for our Partner Funds. This means holding companies to account on environmental, social and governance ('ESG') issues with the potential to impact corporate value. We practise active ownership across all asset classes, using our shareholder rights to vote at company meetings and engaging, both directly and in collaboration with other like-minded investors.

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3 Primary engagement topics

- Governance
- Transparency and Disclosure
- Diversity

Signatory to the PRI

Number of AGMs voted

831

Resolutions voted globally

11,440

Supporter of Transition Pathway Initiative

Responsible Investment partnerships

8

Total number of engagements

814

MAKING A POSITIVE DIFFERENCE

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"As long-term investors, Responsible Investment is fundamental to our investment process: we, alongside our Partner Funds, believe that well and sustainably run companies make better returns over time. And with a lengthened investing horizon, identifying long-term risks becomes even more important."

Responsible Investment ('RI') is fundamental to our investment process. It means placing our Partner Funds at the heart of everything we do. We understand what they want and ensure that we and the asset managers with whom we work take long-term risks into account to achieve the best possible investment outcomes.

We believe businesses that are governed well and run in a sustainable way, taking all stakeholders' interests into account, are more resilient, better able to survive shocks and have the potential to provide superior returns for investors.

I am proud of the work undertaken during the year across Border to Coast to prepare for becoming a signatory to the Principles for Responsible Investment ('PRI'). The team was very thoughtful about wishing to "walk the walk" and ensure the implications for the organisation were well understood. As well as the work to prepare us for signature, we and our Partner Funds have developed a strategy based on the six Principles for Responsible Investment. Areas of particular strategic focus include:

- The continuing integration of Environmental, Social and Governance ('ESG') factors into our investment process, holding external managers as well as our own portfolio managers to account. Planned developments include frameworks for new asset classes, training programmes and enhanced research analysis of ESG factors.
- Working with like-minded asset owners and managers, both to increase the impact of our voice on behalf of Partner Funds and to create clarity about our intentions and expectations regarding active stewardship and ownership. This work includes a clear map of how we are engaging with portfolio companies on material issues to ensure those in which we invest receive a joined-up message.
- A commitment to transparent reporting. This includes enhanced reporting on material ESG themes and the effectiveness of engagement, as well as helping our Partner Funds with their own reporting.

Good stewardship means engaging with management to understand the business, to provide guidance and to hold them to account on how they are running the organisation. We believe it is imperative for the asset owners to give companies clarity about our collective expectations. While we welcome the increasing level of scrutiny on asset managers around RI, we believe there is a real risk of it becoming a 'race' to ask the most difficult questions rather than making a real difference to outcomes.

It takes time to see the impact of engagement, but practical positive differences are starting to emerge. It is vital to set clear milestones and measure progress against those. And we must acknowledge where it isn't working as much as where it is. That is how we learn.

Climate change is a good example of where we are starting to see engagement gain real traction. Best-in-class organisations are responding to the clear expectations set by the large asset owner collaborations we have seen emerge over the last few years. This is a complex area. Climate risk isn't about carbon foot-printing alone. Best-in-class requires a fully holistic investment approach that takes into account more than just carbon, with an understanding of the end-to-end impact of issues right across the production and supply chain.

I commend this, our second annual Responsible Investment and Stewardship Report. I look forward to engaging with all stakeholders over the next twelve months at least as effectively as we did during 2019/20.

Rachel Elwell
CEO Border to Coast

Our twelve partner funds

*With effect from 1 April 2020 Northumberland merged with Tyne and Wear Pension Fund.

Everything we do at Border to Coast comes back to making a positive difference to the one million LGPS members, c. 2,500 local employers and many millions of taxpayers who are associated with our twelve Partner Funds.

HOW WE DO BUSINESS

Location: Cumbria

Location: Bedford

Location: Warwickshire

Location: Leeds

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Business model

Border to Coast offers our Partner Funds a series of risk and return-focused investment funds covering a comprehensive set of asset classes. Partner Funds choose the funds which support their strategic asset allocation, holding shares, units or limited partnership interests in the funds they select.

We are one of the largest pensions pools in the UK. Our single voice enables us to have more influence on behalf of our Partner Funds on issues such as responsible investment.

Business model see **page 9** of Annual Report

Strategy

We aim to be a full investment partner for our Partner Funds, set up to deliver long-term, risk-adjusted investment performance. We continue to build capabilities to ensure we are an efficient organisation that is sustainable for the long term.

We achieve our goals through the quality of our people's decision making and risk management. We have developed a three-year RI strategy using the UN-supported Principles for Responsible Investment as a framework and support the ambitions of the UK Stewardship Code through being a signatory and expecting our external managers to be signatories as well.

Strategy see **page 10** of Annual Report

Governance

The Board has responsibility for the continued sound management of the business. It also holds the Executive to account for promoting an open and inclusive culture and establishing the values required to maintain a successful business.

We have adopted relevant parts of the UK Corporate Governance Code, reflecting our size and the nature of our business. We feel it is right to comply with its spirit as well as its principles and provisions. Doing so aligns us with good practice, transparency and openness.

The Board approves the RI strategy and policies with updates presented to the Board at regular intervals. The Chief Investment Officer ('CIO') is responsible for the implementation of the RI policy, with oversight from the Investment Committee, chaired by the Chief Executive Officer.

Governance see **page 18** of Annual Report

Risk

Border to Coast's risk management framework forms an integral part of our Executive and Board processes and decision making. It enables us to appropriately identify and manage risks within our risk appetite and to minimise those that could result in significant financial loss or reputational damage. We believe a strong risk framework is fundamental for a regulated asset manager responsible for many billions of pounds of pension scheme assets. The principal risks are grouped into broad themes: strategic, investment, financial and operational. Responsible investment and stewardship are classified as investment risks and opportunities.

Risk see **page 11** of Annual Report

INVESTING RESPONSIBLY

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"Our investment horizon is properly measured in decades rather than months. Responsible investment allows us to take a measured and balanced approach in all our investment decisions."

At Border to Coast our investment horizon is properly measured in decades rather than months or even quarters. As a long-term, through-the-cycle asset manager, it is therefore essential that we take a measured and balanced approach in our investments, considering all risk factors. This is why the principles and practice of RI, and the ESG considerations with which they go hand in hand, are so important to us.

Over the last year, we have integrated these principles more fully into our processes as we focus on opportunities that will deliver over the long term. This approach to investment – that explicitly acknowledges the relevance of ESG factors to the generation of long-term sustainable returns – is core to how we will deliver on our purpose.

Ensuring this approach to RI is embedded not just in our, but our partners', processes is fundamental. As a result, asset managers are often struck during tenders by our rigour in ensuring their approach to RI is aligned with ours.

RI is not a static issue. We know today's standards – particularly those relating to the climate – will no longer be acceptable in a few years' time. It has been good in recent months to see some high-profile investors and asset managers, who have been slower than most to recognise the significance of climate risk, take a more positive stance on the issue. At Border to Coast, we will continue to integrate ESG risk factors into our internal decision making processes and ensure that our external managers have robust policies in place.

For our internal portfolios, in addition to conducting quarterly screening and benchmarking, we also incorporate ESG risk consideration at the individual stock level. Portfolio managers complete detailed investment analysis, including in depth review of ESG factors for portfolio investments, with the support of our Research and RI team.

We also include an ESG questionnaire as part of our request for proposal process for selecting external fund managers and private market funds, and on an annual basis after appointment, which are assessed by our portfolio managers and RI team. We seek to actively and constructively engage with the management of portfolio investments, and vote at meetings in line with the RI policy agreed with our Partner Funds.

I am delighted with the work undertaken to date by our RI team, led by Jane Firth, who won the Institutional Investor Peer to Peer Award for Best ESG Programme during the year. This outstanding recognition from her industry peers was thoroughly deserved. It makes us confident about meeting our goal of enhancing our ESG knowledge more deeply and widely throughout our organisation, knowing this effort will be led by such a strong and capable team.

Daniel Booth
Chief Investment Officer

Location: North Yorkshire

Active ownership

We take our investment responsibilities and the need for continuous improvement very seriously. We have a robust process in validating the ESG commitments of the assets we invest in, ensuring that they factor in ESG as a fundamentally important risk factor. Among other measures, this involves a quarterly screening of all (internal and external) portfolios, using external research and insight, such as MSCI data, to assess them against applicable benchmarks and we also measure them against a range of different carbon metrics.

EFFECTIVE ACTIVE OWNERSHIP

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"One of the benefits of pooling is to give our Partner Funds a stronger voice. Collectively we are now one of the largest pension pools in the UK. This increases not only our influence, but also our responsibility to drive Responsible Investment forward."

As an active investor, Border to Coast aims to maximise long-term returns for our Partner Funds and their scheme members, by holding companies and asset managers to account across a range of environmental, social and governance ('ESG') issues. In doing so, we actively seek to influence and change behaviour to improve sustainability and performance across all asset classes, both now and far into the future.

We became a signatory to the UN-supported Principles for Responsible Investment ('PRI') during the year. This reflects both our own and our Partner Funds' commitment to long-term sustainable investment, and the stringent discipline involved has enabled us to identify gaps in our approach to RI.

As a result, we have been able to take an even more robust approach to assuring the ESG credentials of the asset managers and other partners we work with. Many of our asset managers have acknowledged our thorough approach, raising our profile in the industry.

One of the benefits of pooling is to give our Partner Funds a stronger voice. Collectively we are now one of the largest pension pools in the UK. This increases not only our influence, but also our responsibility to drive Responsible Investment forward. This is illustrated by the fact that several companies consulted us on their remuneration policies prior to their AGMs, reflecting our growing reputation in this area.

Governance continued to be a key area of focus during the year. Our work with our voting and engagement partner, Robeco, was particularly important, with the launch of new engagement themes for the coming year which include addressing corporate governance in emerging markets. Our Voting Guidelines demonstrate our commitment to the superior risk mitigation and corporate decision making that more diverse and inclusive boards and executive committees are proven to deliver. We also continued in our effort to improve the standards for disclosure and reporting that we and our Partner Funds expect of the companies we invest in.

These focus areas were reflected in some of the activities and collaborations which we were involved in during the year, helping us to monitor the risks in our portfolio. These include the Workforce Disclosure Initiative, the Climate Change Working Party, which we held with our Partner Funds, and the Investor Mining and Tailings Safety Initiative on which we reported last year. New in the last year was our support of the Transition Pathway Initiative, which assesses how ready companies are to adapt to a low-carbon economy, and collaborating with other investors to address cybersecurity issues.

The current pandemic has increased corporate and investor attention on ESG issues with the realisation that it's not just a nice to have in the good times. This is going to be a challenging time for companies. Investors will focus on their response to the COVID-19 pandemic, taking into account responsibilities to all stakeholders – employees, suppliers and other partners as well as investors. As a responsible investor we will support boards and management teams who reflect the long term in their decision making. We need to remain flexible in our approach as priorities for the remainder of 2020 may change as a result.

Looking ahead, our focus until the end of 2022 is in delivering the three-year RI strategy agreed by our Board in late 2019. The key areas are: continuing to integrate ESG factors into day-to-day operations, collaborating with other institutional investors and developing reporting. So, we are building knowledge internally, training the Investment Team and wider colleagues on a range of RI and ESG topics, and developing a framework to help us map and improve how we engage in these areas across our portfolios. Robeco, meanwhile, is helping build our engagement skills so we can take the lead on collaborative initiatives we support. We are a signatory to the Financial Reporting Council's UK Stewardship Code, which will be a key driver of how we develop our reporting in the years to come.


Location: Durham

"Looking ahead, our focus until 2022 continues to be on integrating ESG factors into day-to-day operations, collaboration with other institutional investors and developing reporting."

Jane Firth,
Head of Responsible Investment

OUR HOLISTIC APPROACH TO RESPONSIBLE INVESTMENT

Sustainability is one of the core values at Border to Coast. From an investment perspective this is brought to life through our approach to RI. This means we place ESG issues at the heart of our research and investment decision making processes. As a long term, strategic investor, combining financial and ESG analysis helps us identify broader risks. This leads to better informed investment decisions, improved risk-adjusted returns and a more holistic approach to investing that can improve performance.

Our Responsible Investment Policy

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We originally developed our Responsible Investment Policy and Corporate Governance and Voting Guidelines (Voting Guidelines) in 2017 in conjunction with our Partner Funds. The Responsible Investment policy sets out our approach to RI and stewardship, and the Voting Guidelines set out our approach and principles relating to voting (and are available on our website). Both policies are designed to help us manage risk and generate sustainable, long-term returns for our Partner Funds. We review them both annually to reflect developments in best practice and regulation, and we update them as necessary through the appropriate governance channels.

All Partner Funds participate in the review process to ensure we have a strong, unified voice. This year's review resulted in some changes to both policies. These reflect the new Shareholder Rights Directive that came into force during 2019, our determination to continue clarifying our intentions on voting, and our need to be in alignment with the PRI. We apply the Voting Guidelines to all listed equities, whether we manage them internally or via mandates with external managers. This provides a framework for voting and ensures each is administered and assessed on a case-by-case basis.

Key features of our policies

- **Governance and implementation:** we have created our RI policies following collaboration and engagement with our Partner Funds, with whom we jointly own and review them annually. The Board and Executive Committees consider and oversee RI, and the Chief Investment Officer ('CIO') is accountable for the implementation of the policies.
- **Skills and competency:** we ensure the Board and our staff maintain the appropriate skills in RI through ongoing professional development. We will take expert advice from RI specialists where needed.
- **ESG integration:** we integrate ESG factors into investment analysis and decision making across all the different asset classes we invest in, enabling long-term sustainable investment performance for our Partner Funds. We consider those ESG factors that could cause financial and reputational risk, which in turn could reduce long and short-term shareholder value and increase the risk of investing in a company.
  - **Internally managed listed equities:** we use ESG data and specialist research alongside general stock and sector research. When used in conjunction with traditional financial analysis, this approach results in a more informed investment decision making process and gives us an additional context for stock selection.
  - **Fixed income:** we incorporate ESG analysis factors into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.
  - **Private markets:** we believe that ESG risk forms an integral part of the overall risk management framework for private market investment. ESG issues are considered as part of the due diligence process for all private market investments which includes assessing a manager's ESG strategy through a specific ESG questionnaire. We expect managers to report on progress and any potential risks annually, and we monitor managers to identify any possible ESG breaches.
- **External manager selection:** we have incorporated RI into our external manager selection and appointment process. We monitor the performance of these managers, including an assessment of how far they integrate stewardship and ESG in accordance with our policies.
- **Approach to climate change:** we actively consider how climate change, the shifting regulatory environment around it and its potential macroeconomic impact will affect investments.
- **Voting:** wherever practicable, we aim to vote in every market in which we invest, exercising our voting rights carefully to promote and support the principles of good corporate governance. Wherever possible, we also apply our Voting Guidelines to externally managed assets.
- **Engagement:** we aim to use constructive shareholder engagement to influence companies' governance standards and their environmental, human rights and other policies. We will also work collaboratively with other like-minded investors and bodies to increase our influence.
- **Communication and reporting:** we aim to be transparent, making our RI and voting policies publicly available. We publish quarterly voting and full voting activity on our website along with our quarterly and annual Stewardship reports. We also report directly to our Partner Funds on our engagement and RI activities, both quarterly and in our annual RI & Stewardship Report.

Location: Surrey

Our approach to engagement

As a long-term investor we practise active ownership. We believe well-governed, sustainably run businesses are more resilient, better able to cope with market volatility and deliver good returns for investors. This approach is set out in our Responsible Investment Policy and Corporate Governance & Voting Guidelines, which outline how we practise active ownership through monitoring, engagement and voting and, if necessary, litigation.

MANAGING THE RISKS OF CLIMATE CHANGE

Climate change is one of the most significant threats to a sustainable future, posing existential risks to the stability of the financial system. This is recognised by central banks, with the realisation that the growing risks to financial stability need to be urgently addressed. Physical and transition risks could both have a significant impact on investment outcomes for pension schemes, their members, and participating employers. We welcome the fact that it is increasingly recognised as a fundamental issue for asset owners and the asset management industry.

The science behind climate change is well established and scientists, academics and leading scientific organisations agree it is extremely likely the warming of the climate is due to human activities. The frequency of extreme weather events has been rising over the last few decades, and many examples occurred in 2019, including record temperatures in the UK and Europe and wildfires of unprecedented intensity in Australia.

Climate change, the shifting regulatory environment and associated potential macroeconomic impact have the potential to affect the long-term value of investments across all asset classes. Climate change has the potential to transform how the world works, radically affecting the way we live and work, the development of business and industry and the flows of capital.

We can divide climate-related risks into two main categories: those associated with the transition to a low-carbon economy; and those related to physical impacts. All have the potential to cause financial damage. This is not a theoretical possibility that will affect asset owners at some unspecified future point. It has real implications now, due to changes in government policy and regulation. Although the US withdrawing from the Paris Agreement is a significant setback, there is still momentum on environmental policy at regional and national level. China is progressively focusing on more environmentally sustainable growth. The EU has released its Green Deal and financial plan to move to a green economy, with the aim of being carbon neutral by 2050.

The transition to a low-carbon economy will affect some sectors more than others, most notably energy, extractives, utilities and sectors that are highly reliant on energy. There are likely to be winners and losers even within these sectors, however. Climate-related issues can have a financial impact on a company's revenues, its spending and the valuation of its assets and liabilities. For example, transition and physical risks may affect demand for products and services, impacting company revenues. An organisation's debt and equity structure may also change as debt levels increase to compensate for reduced operating cash flows or to cover increased R&D spending.

We need to consider the financial implications of climate change both strategically and at a portfolio or individual stock level to ensure our portfolios are equipped to provide long-term sustainable financial returns for our Partner Funds. To better understand the potential investment implications, in 2019 we established a Climate Change Working Party made up of Border to Coast personnel and Partner Fund officers. The six sessions held in 2019 featured presentations from a range of experts including Robeco and our external managers.

We share with our Partner Funds a clear priority to manage the risks and opportunities arising from climate change, and together we identified several areas to progress over the coming period. These include:

- continuing to embed and enhance ESG analysis, including climate risk, into our investment decisions; and
- investigating options for measuring the management of transition risk, including scenario analysis and the role of private markets in managing transition risk.

We use third-party ESG and carbon data to measure and monitor our portfolios, recognising that carbon footprinting is only part of the 'toolbox' and should not be viewed and used in isolation. We therefore use the Transition Pathway Initiative's tool to asses companies' progress on how they are transitioning to a low-carbon economy.

We use engagement and our voting rights to encourage and influence companies to adapt their business strategies to align with a low-carbon economy. We are supporters of Climate Action 100+, the largest collaborative RI initiative in history, which since launch has made some significant progress with several companies. However, much more needs to be achieved to persuade some of the world's largest emitters of greenhouse gases to take stronger action on climate change.

Robeco and the Local Authority Pension Fund Forum ('LAPFF') also carry out climate-related engagement on our behalf. We use our votes to register concern by voting on climate-related agenda items and co-filing shareholder resolutions that reflect our RI policy. As a supporter of the Task Force on Climate-related Financial Disclosures, in 2020 we are taking our first steps towards applying its recommendations through voluntary reporting. Our disclosure report can be found on our website.

"We use our votes to register concern by voting on climate-related agenda items and co-filing shareholder resolutions that reflect our RI policy. As a supporter of the Task Force on Climate-related Financial Disclosures, in 2020 we are taking our first steps towards applying its recommendations through voluntary reporting."

EFFECTIVE STEWARDSHIP

As a shareowner, Border to Coast has responsibility for the effective stewardship of the companies in which we invest. Voting rights are therefore an asset which we exercise carefully to promote and support the principles of good corporate governance.

We aim to engage with investee companies globally and vote on our shareholdings in listed equity portfolios in every market where this is practicable. We believe the most effective way to achieve this is through a specialist external provider; we have therefore appointed Robeco as our voting and engagement provider to implement our detailed voting guidelines and ensure votes are executed in accordance with policies.

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The voting data below for our UK Listed Equity Fund, Overseas Developed Markets Equity Fund, Emerging Markets Equity Fund and UK Listed Equity Alpha Fund cover the full year, as these funds were all launched in 2018. However, this report does not cover a full year's voting data for the Global Equity Alpha Fund, as it was launched on 30 September 2019.

We and our Partner Funds reviewed and revised our Corporate Governance and Voting Guidelines during the year, and expanded them to reflect global corporate governance trends. The Voting Guidelines, which are available on our website, provide a framework for voting. Portfolio managers and responsible investment staff administer and assess them on a case-by-case basis before voting is executed to take specific company and meeting circumstances into account.

We produce quarterly voting records and annually publish a full list of our voting activity. You can view these on our website.

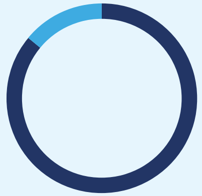
Total number of meetings

831

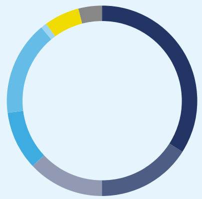
Total number of resolutions

11,440

Global meetings – votes with/against management



Shareholder meetings voted by region

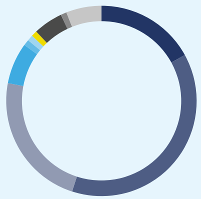


Total

929

(N.B. companies may be held in multiple portfolios).

Global votes against – by category %



Location: Surrey

"We aim to engage with investee companies globally and vote on our shareholdings in listed equity portfolios in every market where this is practicable."

Voting continued

As at 31 March 2020

UK Listed Equity Fund

Launch

July 2018

Approximate size

£3.5bn

Managed

Internally

Total number of meetings

131

Total number of agenda items voted

2,311

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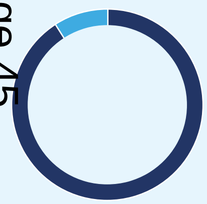
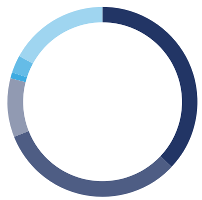
Votes with/against management



- With management 91%
- Against management 9%

Votes against by category



- Audit 37%
- Board 32%
- Remuneration 10%
- Capital management 1%
- Shareholder proposals 3%
- Political donations 17%

Overseas Developed Markets Equity Fund

Launch

July 2018

Approximate size

£2.5bn

Managed

Internally

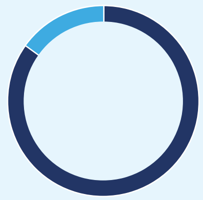
Total number of meetings

398

Total number of agenda items voted

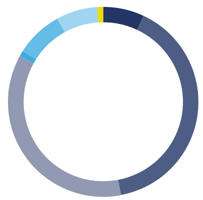
5,356

Votes with/against management



- With management 85%
- Against management 15%

Votes against by category



- Audit 7%
- Board 40%
- Remuneration 36%
- Company status 1%
- Capital management 8%
- Shareholder proposals 7%
- Other 1%

Emerging Markets Equity Fund

Launch

October 2018

Approximate size

£0.6bn

Managed

Internally

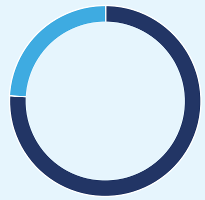
Total number of meetings

167

Total number of agenda items voted

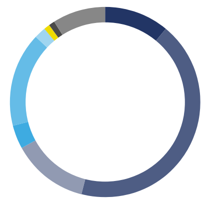
1,530

Votes with/against management



- With management 76%
- Against management 24%

Votes against by category



- Audit 11%
- Board 43%
- Remuneration 13%
- Company status 4%
- Capital management 16%
- Shareholder proposals 2%
- M&A 1%
- Political donations 1%
- Other 9%

UK Listed Equity Alpha Fund

Launch

December 2018

Approximate size

£1bn

Managed

Externally

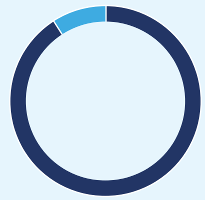
Total number of meetings

207

Total number of agenda items voted

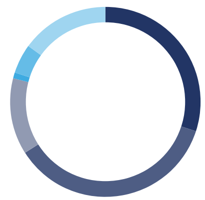
3,393

Votes with/against management



- With management 91%
- Against management 9%

Votes against by category



- Audit 30%
- Board 36%
- Remuneration 13%
- Capital management 1%
- Shareholder proposals 5%
- Political donations 15%

Global Equity Alpha Fund

Launch

October 2019

Approximate size

£4bn

Managed

Externally

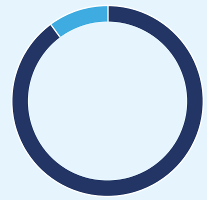
Total number of meetings

26

Total number of agenda items voted

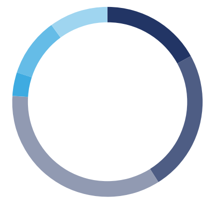
316

Votes with/against management



- With management 90%
- Against management 10%

Votes against by category



- Audit 17%
- Board 24%
- Remuneration 35%
- Capital management 4%
- Shareholder proposals 10%
- Political donations 10%

DRIVING CHANGE THROUGH DIALOGUE

Border to Coast believes that the best way to influence companies is through engagement. We will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach we take is to actively influence companies' governance, social and environmental policies through constructive engagement and the use of voting rights; holding companies and asset managers to account on ESG issues that could impact corporate value. During 2019/20 we engaged with the companies in which we invest across our main themes of Governance, Transparency and Disclosure, and Diversity.

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As a long-term investor and representative of asset owners, we practise active ownership by holding companies and asset managers to account on ESG issues that could impact corporate value.

We believe engagement is an important component of active ownership, and our strategy includes several different strands for engaging with our investee companies. Because we need to engage meaningfully with global companies, our voting and engagement provider Robeco works globally on our behalf across a number of themes with companies held in internally managed sub-funds. Our internal portfolio managers and RI team also engage directly on various ESG issues with companies we hold in internally managed portfolios. As part of their mandate, we expect external managers to engage with companies and bond issuers held in the equity and fixed income funds they manage for us.

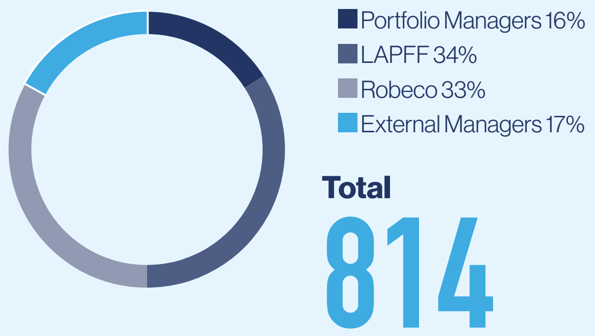
The approach to engagement varies depending on the asset class and ownership structure. As the UK Stewardship Code has extended its scope to asset classes beyond shares in UK issuers, we need to ensure that we are engaging across all the asset classes we are invested in. Engagement on our listed equity holdings has been taking place via Robeco and our internal team since the first listed equity sub-funds went live in July 2018. We also have externally managed mandates and are working with our managers on engagement reporting and outcomes.

While bondholders do not have voting rights as such, they have a direct line of access to management as capital providers to corporations. We expect our fixed income and multi asset credit managers to engage on our behalf where ESG risks have been identified in portfolios. Fixed income engagement examples are not included in this report as the first fixed income sub-fund was only launched in March 2020.

We launched the first funds as part of our alternatives offering during 2019, covering private equity, infrastructure and private credit. Responsible Investment criteria are integrated into our due diligence process and we prioritise engagement with the General Partners ahead of investment to ensure managers meet our requirements in this area. This has led to some managers agreeing to enhance ESG reporting and focus going forward. As the programme is immature, with capital starting to be deployed over the 2019/20 we will be able to provide greater detail as underlying funds make commitments and issue annual reports.

We believe we can strengthen our voice even more by working with other like-minded shareholders. We have joined a number of collaborative RI initiatives, including Climate Action 100+ and the 30% Club Investor Group, compatible with our aims and beliefs (see page 8 for more detail). We are a member of the Local Authority Pension Fund Forum ('LAPFF'), which carries out company engagement on behalf of its members across a broad range of ESG issues.

Number of engagements



Robeco engagement by topic

Engagement continued

Engagement themes

Given the breadth of potential RI issues, we recognise that we can be more effective by focusing on specific areas. During 2019-20 Border to Coast continued to concentrate on three main ESG areas: governance, transparency and disclosure, and diversity. We look in greater detail at examples of each of these areas below. Although we have specific focus areas for engagement, our relationship with Robeco and our membership of LAPFF allow us to engage more widely across our global portfolios. Robeco undertakes active engagement on our behalf across twenty different ESG themes, including corporate governance, climate action, single use plastics and cyber security, on our global holdings. Engagement also takes place with companies that have breached the United Nations Global Compact Principles.

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The UN Sustainable Development Goals ('SDGs') are a comprehensive set of 17 global goals to achieve a better and more sustainable future for all. Over recent years Robeco has been taking steps to increase understanding of the impact of engagement on the SDGs. During 2019, 14 of their engagement themes were linked to a relevant SDG. Engagement across four of the SDGs was linked to product impact, and engagement on ten SDGs was in relation to business conduct.

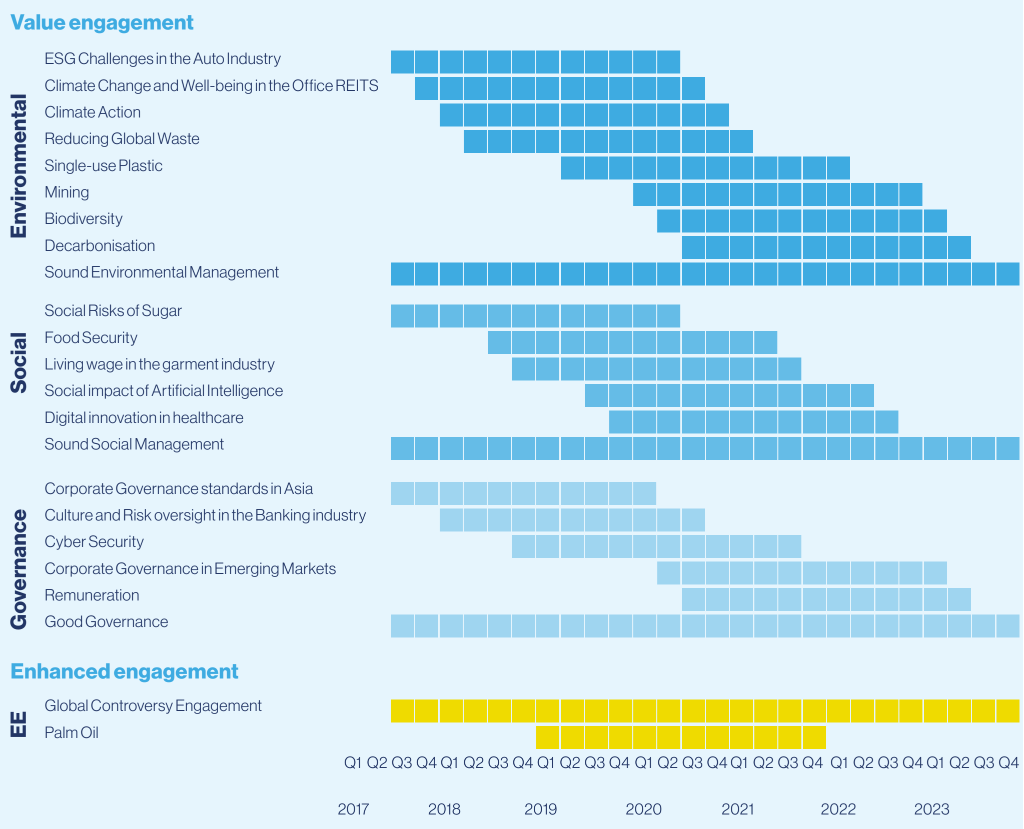
Robeco are engaging with companies on 12 of the UN Sustainable Development Goals

Engagement needs to be conducted over an extended period of time to build long-term relationships and trust with company management in order to achieve change. Robeco's engagement themes reflect this by running for a period of three years. Each year some engagement themes are completed and closed and replaced by new themes. During 2019 new areas included single-use plastic and digital innovation in healthcare and the closing of four themes including tax accountability. New themes being launched in 2020 include engaging with the mining sector, corporate governance in emerging markets, decarbonisation, biodiversity with a focus on agriculture and deforestation, and remuneration focusing on EU and US companies. Robeco's engagement is covered in greater detail in their Active Ownership Client Reports, which can be found on our website.

We are also members of LAPFF, which allows us to engage collaboratively with other Local Government Pension Funds and Pools across different ESG themes on behalf of its members. Themes covered complement and, in some instances, overlap and strengthen the engagements undertaken by Robeco and Border to Coast. Areas covered include employment practices, anti-bribery and corruption, climate risk, board composition and human rights.

The following case studies are engagements conducted by our external managers, our Voting and Engagement Partner, and through collaborative initiatives.

Robeco's engagement themes for 2020



Engagement continued

Governance
Good governance is at the core of any successful business. High standards of corporate governance tend to feed through to robust oversight and good management of environmental and social factors. Company boards should adhere to standards of best practice in relation to issues such as leadership, effectiveness, accountability, relations with stakeholders and remuneration. The Executive remuneration policy is one of the instruments companies use to guide, evaluate and reward the behaviour and achievements of executives. It is therefore in the interests of a company, its shareholders and other stakeholders to have an appropriate remuneration policy in place for executives. Over many decades it has been argued that the design of executive remuneration structures impacts top management's focus, risk appetite and decision horizon. An appropriately structured remuneration policy should align executive pay with company strategy, by incentivising executives to create long-term, sustainable shareholder value. A number of criteria should be fulfilled in any compensation plan. For example, an appropriate balance must be struck between fixed and variable compensation, and short- and long-term performance. Performance must be measured over a period long enough to capture success or failure in building long-term shareholder value. A portion of compensation must also be truly 'at risk' to appropriately align pay with performance, including reduced pay-outs when the company underperforms peers. Targets used for variable compensation should be sufficiently challenging to incentivise added value and outperformance.

In order to come to an informed assessment of compensation structure, it is therefore important that companies disclose the metrics, thresholds, targets and vesting conditions of equity based compensation in an accurate and transparent manner. The company must also coherently report on the guidance behind the philosophy of the remuneration policy. In addition, we expect remuneration committees to be responsive to shareholders by taking into account the levels of votes against remuneration at previous shareholder meetings, and engaging with shareholders where discontent exists.

Engagement examples:
Engagement with a North American financial services company
Reasons for engagement: The North American financial services company was involved in scandals related to incentive schemes and compliance.

Objectives: Increase transparency on risk governance and management approach, with a focus on the behavioural implications of incentive structures for both top-executives and sales staff, trends and requirements for risk governance systems, and operational risk management.

Scope and process: Following the 2019 annual shareholder meeting, discussions were held with the Chair of the board regarding progress made on the shareholder proposal requesting more disclosure on risks associated with the incentive structure in the company. Later, in November 2019, discussions were held with the Head of Remuneration and Head of the Product Review Committee on new appointments, remuneration and product approval process.

Engagement outcome: Although challenges remain for the company, progress has been made in reforming corporate structure, centralising its organisation and making an inventory of all control processes that need to be harmonised. In addition, the long-term incentive program has been amended to curb a high degree of risk-taking, by setting appropriate limits and preconditions for pay-out. Nonetheless, concerns remain with limited disclosure on risks considerations in the remuneration policy. The product approval process now appears to be robust and the approval of an independent risk committee is an important safeguard against products that do not have a clear business rationale.

Engagement with a UK housebuilding company
Reasons for engagement: Over the last few years, the company has faced severe criticism from shareholders, politicians and the wider society due to its pay practices for executives.

Objectives: To improve transparency and disclosure on executive remuneration policies and approaches.

Scope and process: Prior to the AGM, dialogue was had with the Chairman of the Board and Chairwoman of the Remuneration Committee to discuss compensation-related topics, after the contract with a former CEO was terminated due to a scandal involving his compensation plan. An independent review was commissioned by the Chair of the Board.

Engagement outcome: In contrast to earlier dialogues with the former Chairman of the Board, the company has been open to discuss compensation-related topics, which is a positive development. The company is willing to enhance transparency by publicly disclosing findings of the independent review.

Location: Tyne and Wear

"Good governance is at the core of any successful business, and high standards tend to feed through to good management of environmental and social factors."

Engagement continued

Governance continued

Engagement examples:

Engagement with Genus – an animal genetics company

Reason for engagement: Engagement with board members following the unexpected departure of the Chief Executive Officer ('CEO'), length of the Chairman's tenure, and also in relation to a review of the remuneration policy.

Objectives: To understand and monitor the CEO succession management process, to ensure board stability and oversight during the period of executive change, and to encourage changes to the remuneration policy proposals.

Scope and process: Engagement was had with the Chairman, following an announcement that the highly regarded CEO was leaving the business. The discussion focused on the background to this unexpected development and the board's succession planning and recruitment processes.

The UK Corporate Governance Code recommends that a chairman serve on a board for a maximum period of nine years. To strictly comply with the Code, the Genus Chairman should have stepped down in November 2019. The Senior Independent Director was keen to explore whether shareholders would support the Chairman's re-election and extension of this tenure beyond nine years, to provide stability to the board and support to the executives as they settled into their new roles. This seemed to be a sensible and desirable outcome in shareholders' interests.

Engagement meetings were also held with the Chair of the Remuneration Committee on revisions to the remuneration policy. The amendments that Genus was proposing were considered and suggestions made for improvement.

Engagement outcome: Board stability was maintained, and the remuneration committee further revised its proposals, fully addressing the concerns raised.

Diversity

Diversity on boards and within an organisation is important to ensure that a company is sustainable. There is growing evidence that more diverse boards result in better-performing companies, leading to better investment returns and financial outcomes for investors. A common argument is that boards with people from different backgrounds are more likely to approach issues from various perspectives, leading to better-informed decision making and more effective supervision. Recent studies have demonstrated the connection between gender diversity and financial performance, finding companies with more diverse boards better equipped to outperform. Government intervention in this area has increased, with several countries adopting legislative measures to promote gender diversity at board level through mandatory gender quotas.

It is important to remember that board diversity is not just about gender but also involves increasing the representation of ethnic minorities on boards, bringing a variety of perspectives to board discussions to ensure there is cognitive diversity. The Parker Review and report recommendations of 2017 urged businesses to improve the ethnic and cultural diversity of boards to reflect the communities they serve and their employee base, proposing that FTSE 100 companies have at least one director from an ethnic minority background by 2021.

The last couple of years have seen a surge in gender-related shareholder resolutions, particularly in the US, including requests for gender pay gap or employment diversity reports to enhance diversity at the board level. Enhanced disclosures on workforce gender diversity and remuneration opportunities should benefit shareholders; failure to address such matters could present significant legal, reputational, and retention concerns for companies.

Diversity is clearly a prime candidate for active ownership approaches through voting and engagement. We are a supporter of the 30% Club Investor Group which is a key way for us to engage with companies to encourage change. Before casting our votes, a thorough assessment of the overall board diversity in terms of tenure, skills, gender and external commitments is conducted, and compared to local best practices. Our voting guidelines reflect this assessment criteria.

Location: Rumbling Kern near Howick

"Board diversity is not just about gender but also involves increasing the representation of ethnic minorities on boards, bringing a variety of perspectives to board discussions to ensure cognitive diversity."

Engagement continued

Diversity continued

Engagement examples:

Engagement with an integrated energy company

Reason for engagement: The company was identified as a target for engagement due to a decreasing level of gender diversity on the board.

Objectives: To understand the company's strategy for overcoming their apparent challenge to recruiting women and to improve board diversity.

Scope and process: A letter was sent requesting a meeting to seek clarity on the development of the board's gender diversity strategy. A subsequent meeting was held with the company and shareholders to discuss the approach to diversity and inclusion.

Engagement outcome: The company is committed to improving board diversity and working to ensure that the right culture is instilled at board level. A female Non-Executive Director was appointed to the board in early 2020 taking female board representation to 33%.

Transparency and disclosure

Recent years have brought many developments in the corporate governance landscape, especially in emerging markets, with changes such as amendments to the corporate governance code, and the introduction of numerous stewardship codes. In the UK the Financial Reporting Council (FRC) published the revised UK Stewardship Code which became effective from 1st January 2020. The new Code is ambitious and sets new expectations on how stewardship and investment are integrated, with specific reference to ESG issues. These changes have created momentum for the improvement of corporate governance for listed companies. Such changes can have strong relevance to investors, in that improving disclosure and corporate governance could enhance communication between investors and companies and align shareholder interests with those of corporate managers.

We believe that additional information and reporting from companies is essential for investors to understand the underlying risks within portfolios and investee companies, enabling good investment decisions that take long-term risks into account.

For example:

- A clear disclosure of a company's business strategy is essential for investors to assess how strategic management aims to foster competitive advantage and consequently future performance and value.
- Transparency is critical in allowing investors to understand the link between pay and performance over time. Companies must disclose the metrics, thresholds, targets and vesting conditions of equity-based compensation in an accurate and transparent manner.
- In June 2017 the Task Force on Climate-related Financial Disclosures ('TCFD') issued a set of voluntary recommendations to help corporates assess and report on financial impacts of Climate-related risks and opportunities. Following this announcement, TCFD became a core aspect of engagement with companies on the issue of climate change and disclosure.

Location: South Yorkshire

"We believe additional information and reporting from companies is essential for investors to understand the underlying risks within portfolios and investee companies, enabling good investment decisions that take long-term risks into account."

Engagement continued

Transparency and disclosure continued

Engagement examples:

Engagement with a European publishing company

Reasons for engagement: Regulators and investors are increasingly scrutinising multinationals on how they deal with corporate taxes. As companies have a certain degree of discretion on how and where to pay corporate taxes, it is relevant for investors to have an understanding of the sustainability of a company's tax rate.

Objectives: Greater transparency is required by companies in disclosing their tax policy, governance, and the impact of future regulation on their tax position.

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Scope and process: A constructive, continuous dialogue has taken place with the company, that has given insights in the implementation of its tax policy, the governance and reporting on taxation, as well as the impact of the US tax reform. The three year engagement has positively changed the perception of the company, as a result of the dialogue and additional disclosure.

Engagement outcome: During the time of the engagement, the company has made an effort to publish the risk control framework around tax practices as part of the public tax document, improving disclosure practices. The company maintains a continuous dialogue with all its stakeholders, including regulators, and finance professionals, to keep up to date with all relevant changes to tax legislation and practices. Tax governance appears to be strong, and the company has started to explore real time tax reporting in collaboration with the government, reinforcing the finding that reporting systems are of high standards.

Engagement with a European consumer goods company

Reasons for engagement: Regulators and investors are increasingly scrutinising multinationals on how they deal with corporate taxes. As companies have a certain degree of discretion on how and where to pay corporate taxes, it is relevant for investors to have an understanding of the sustainability of a company's tax rate.

Objectives: Greater transparency is required by companies in disclosing their tax policy, governance, and the impact of future regulation on their tax position.

Scope and process: Engagement was conducted over a three year period with dialogue with the Group Head of Tax and a representative of Investor Relations. The particular focus was around policy and principles, and disclosures. The company is widely considered an industry best practice, and served as an example in the engagement peer group.

Engagement outcome: During the engagement time frame, the company has published a Corporate Tax Page and included its approach on taxation in the sustainability report, demonstrating the principles with concrete guidelines for implementation. There are still further opportunities for improvement; the Head of Global Tax expects the company to move towards Country to Country reporting in the future, this will be monitored.

Engagement with a large European oil and gas company

Reason for engagement: Additional factors need to be integrated into analysis of fossil fuel assets to ensure climate risk is priced properly, and capital is allocated to align with the transition to a low carbon future.

Objectives: To have a future-proof business strategy, to actively minimise operational carbon footprint, consider product development and be transparent on lobbying activities.

Scope and process: Over the course of three years, there has been extensive engagement on climate change. In 2019, investors behind the Climate Action 100+ initiative filed a shareholder resolution that was supported by the company's board at the AGM in May. The key ask of the resolution was to improve capital expenditure, and to review new investments in relation to alignment with the goals of the Paris Agreement.

Engagement outcomes: The support of the board for the resolution was a major achievement of the Climate Action 100+ collaboration. As a result, the company now discloses how it evaluates the consistency of each new material capital expenditures' alignment with the goals of the Paris Agreement. In addition, it discloses progress in reducing the carbon intensity of its energy products over time. In early 2020, influenced by investor engagement, the company announced bold new climate change ambitions including being a net zero emitting company by 2050 taking into consideration emissions throughout the entire value chain, including scope 3 emissions of sold products.

Location: Lincolnshire

WORKING IN PARTNERSHIP

Pooling our Partner Funds' assets gives us a stronger voice when it comes to influencing through voting and engagement. When considering RI, Border to Coast has two roles: to be responsible stewards of the assets under its remit and to support the Partner Funds in their own role as asset owners. This has been a key factor when developing our RI strategy; identifying the strategic development priorities and being able to support our Partner Funds in these key areas. We have a detailed and structured way of engaging with our Partner Funds which is fully explained in our Governance Charter on our website.

We work in partnership to ensure we can fully understand our Partner Funds' needs. RI workshops are held on a quarterly basis with the Officers Operations Group, which is made up of the lead officers from each of the Partner Funds. The workshops cover standing RI related agenda items and special topics for discussion. A specific workshop is also held which enables Partner Funds to feed into the Responsible Investment policy and Voting Guidelines review. We held our first RI workshop for the Border to Coast Joint Committee in March 2020 which was well received. We conducted a survey to ensure we were focusing on key issues of interest which included climate change and the implementation of the revised UK Stewardship Code. Further workshops will be held during 2020. We keep our Partner Funds informed on the RI and stewardship activities and outcomes via bespoke research pieces, quarterly stewardship reports and the annual Responsible Investment and Stewardship Report.

Joining with other like-minded asset owners and managers gives even greater opportunities to make a difference to investment outcomes. During 2019-2020, we were pleased to register our support for the Transition Pathway Initiative ('TPI') and become a signatory to the UN-supported Principles for Responsible Investment ('PRI'). We continue to support and consider collaborations that support our engagement focus areas of Governance, Transparency and Disclosure, and Diversity.

Border to Coast seeks to work collaboratively with other like-minded investors, external groups, investor coalitions and others to maximise our influence, particularly when doing so is more effective than acting alone.

The Local Authority Pension Fund Forum
With more than £230 billion in combined assets under management, the Local Authority Pension Fund Forum ('LAPFF') is the UK's largest collaborative shareholder engagement forum. Its aim is to support the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and responsibility among investee companies. LAPFF currently has 82 LGPS Funds and six Pools as members. All of our Partner Funds are members, and we made the decision to become a member before the first investments were transitioned from Partner Funds.

Councillor Doug McMurdo, the Chair of Bedfordshire Pension Fund and Chair of the Border to Coast Joint Committee, became the LAPFF Chair in July 2019. LAPFF engages across a broad range of environmental, social and governance themes. It continues to engage with policy makers and responds to consultations. It has continued its work on 'reliable accounts', participating in an initiative led by Sarasin Partners that engages with the Big Four auditors on climate impact in auditor statements. LAPFF has also played a significant role in the Investor Mining and Tailings Safety Initiative by connecting with affected communities and raising their visibility.

The 30% Club Investor Group
The 30% Club Investor Group has 38 members, across asset owners, asset managers and charity investors with over £11 trillion AUM collectively. It aims to engage with company boards and senior management to encourage diversity, effecting change through voting and engagement. Diversity on boards and within organisations is important to ensure that companies are sustainable. There is growing evidence that more diverse boards result in better-performing companies. This is because diverse teams make better decisions, and gender-balanced companies attract and retain better talent. This leads to materially better investment returns and financial outcomes for investors.

Diversity is one of our main engagement themes, and supporting the 30% Club Investor Group is a key way for us to engage with those who are slow to respond and encourage change. The Group is also keen to praise companies whose strong levels of gender diversity on their boards and in their senior management teams make them leaders in this area.

Climate Action 100+
Climate Action 100+ ('CA100+') was launched in 2017 as a five-year investor-led initiative, to undertake collaborative engagement with the largest greenhouse gas ('GHG') emitters and other global companies. Its aim is to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks and opportunities.

It has grown to be one of the world's largest investor-led initiatives, supported by over 450 signatories collectively with more than $40 trillion in assets under management. Although originally looking to engage with the top 100 largest emitters, the list has been extended and 161 companies are now under engagement. These companies account for around 80% of global industrial emissions. Companies including Royal Dutch Shell, Glencore, Maersk, VW, HeidelbergCement, PetroChina and Nestlé have made industry-leading public commitments as a result of this engagement.

"Border to Coast will seek to work collaboratively with other like-minded investors, external groups, investor coalitions and others to maximise our influence, particularly when doing so is more effective than acting alone."

Collaborations continued

Climate Action 100+ continued
In October 2019, CA100+ published its first progress report. Although much has been achieved by companies across a range of industries, including some of the most challenging to decarbonise, the report emphasised that the world's largest corporate emitters need to do far more to tackle climate change. Corporate lobbying on climate policy is a priority for investors as many companies have yet to declare their support for positive action. Investors working through CA100+ have set out the expectations of European investors on corporate lobbying. As a result of engagement, several companies have committed to reviewing their lobbying activity and industry association memberships.

Priorities for the next strategic phase of the initiative include working to secure more commitments on lobbying disclosures, setting clear targets for reducing emissions to net zero by 2050 and for companies to implement the TCFD recommendations.

The Workforce Disclosure Initiative

The Workforce Disclosure Initiative ('WDI') was launched by ShareAction in 2017 with funding from the UK Department for International Development. It was set up to improve data disclosure from listed companies on how they manage workers in their direct operations and supply chains.

To achieve this, it uses an annual survey to request comparable data from companies. Investors' focus has predominantly been on governance and environmental matters, where data and disclosure on social risks has historically been poor. Better data will enable investors to assess any potential risks within investee companies, particularly given the wide range of different responses we are currently witnessing to the COVID-19 crisis.

The first survey in 2017 was sent to the FTSE 50 plus 25 mega cap companies listed on global stock exchanges, achieving a 45% response rate. In 2019, the initiative's third year, 750 companies were contacted and 118 responses received. Respondents came from five continents, covering 11 sectors, including first-time submissions from Russia, South Africa and Brazil.

Interaction and engagement with companies has increased over the time the initiative has been running as companies realise the importance of disclosing workforce data. The WDI is in the process of relaunching as a fee-paying initiative and will send out this year's survey to 750 companies in July 2020.

The Institutional Investor Group on Climate Change

The Institutional Investor Group on Climate Change ('IIGCC') provides a collaborative forum for pension funds and other institutional investors to engage with policymakers, regulators and companies to address the long-term risks and opportunities associated with climate change. Membership enables Border to Coast to deliver our RI Policy commitment to engaging with policymakers about climate change. This would be more difficult to do in isolation.

IIGCC has more than 230 members across 15 countries, mostly pension funds and asset managers with over €30 trillion in assets under management. IIGCC operates several work plans which cover policy, investor practices, property and supporting members in their active ownership approach. It also plays a key role in investor initiatives and collaborations globally, including Climate Action 100+, The Investor Agenda and the Global Investor Coalition on Climate Change.

During the year, IIGCC hosted a roundtable setting out investor expectations on corporate lobbying and climate change, which was attended by major oil and gas and mining companies. In May, it launched the Paris Aligned Investment Initiative looking at how investors can most effectively align portfolios with the goals of the Paris Agreement. It also published an investor guide for the construction materials sector, which outlines the steps investors expect from companies to manage climate risks and accelerate action to decarbonise in line with the goals of the Paris Agreement. The guide will be used to inform company engagement through Climate Action 100+. Discussions and engagement continued throughout the year with senior policy makers and politicians in Brussels.

The Global Investor Statement to Governments on Climate Change, coordinated by the IIGCC, now has the backing of over 515 investor signatories with over $35 trillion in assets under management.

The Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures ('TCFD') is a voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics.

Greater disclosure is key to obtaining reliable and consistent data, which improves investors' ability to assess climate-related risks and opportunities across investments. As a supporter of the TCFD, we encourage investee companies to improve disclosure and report in line with the TCFD recommendations. This was the first year in which we applied the recommendations by voluntarily reporting. The TCFD report, which sets out Border to Coast's approach to managing climate-related risks and opportunities within the four thematic areas, can be accessed on our website.

The Transition Pathway Initiative

The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition. To do so, the TPI uses a framework to evaluate how well companies manage the GHG emissions associated with their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. It makes the information publicly available through an online tool.

Over the year, the TPI published research and assessment pieces on high-emitting sectors, hosted webinars and published the TPI State of Transition Report 2020. The TPI has a number of priorities for 2020 and beyond which include:

- extending coverage of its listed equity universe to approximately 800 companies;
- extending its analysis to include corporate fixed income and sovereign bonds; and
- developing analytical tools to help investors assess if portfolios are aligned to a 2° or 1.5°C temperature rise.

Border to Coast became a supporter of the TPI in October 2019. We actively use the research and TPI tool when assessing portfolios.

Collaborations continued

Signatory of:

PRI Principles for Responsible Investment

Principles for Responsible Investment

The Principles for Responsible Investment ('PRI') is the world's leading advocate for Responsible Investment ('RI'), with over 2,300 signatories worldwide. It enables investors to publicly demonstrate commitment to RI, by supporting the six principles for incorporating ESG issues into investment practice.

Border to Coast became a signatory to the PRI in November 2019, enabling us to publicly demonstrate our commitment to long-term sustainable investment. We have established strong foundations in RI in the last eighteen months in voting, engagement, ESG integration and collaborating with other asset owners and asset managers.

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We will use the PRI framework to implement our RI strategy, with a focus on integrating ESG across all asset classes as well as enhancing and expanding our reporting.

Investor Mining and Tailings Safety Initiative

Waste generated from mining, known as 'tailings', is growing as increased demand for essential metals leads to the extraction and development of low-grade orebodies; this results in larger quantities of tailings per ton of product. Such waste needs to be carefully handled, processed and stored in facilities that are continuously monitored to ensure they are not at risk of collapse or leaking waste into the environment.

While there are various estimates of the global number of 'tailings dams', the current estimate is 3,500. The true figure is likely to be much higher, however. A large number of these dams risk impacting local communities if they were to collapse. Companies therefore need to take preventative action to mitigate potential future risks of collapse.

In recent years, major accidents have increased public awareness of the dangers surrounding poor management of tailings dams by mining companies. In January 2019, catastrophic failure of a tailings facility at an iron ore mine in Brumadinho, Brazil – owned by listed Brazilian mining company Vale – resulted in a tragic loss of life and major environmental pollution, with more than 270 known fatalities and many others missing.

Immediately following this incident, major investors led by the Church of England Pensions Board and the Swedish National Pension Funds' Council on Ethics set up the Investor Mining & Tailings Safety Initiative. As a company with a strong commitment to RI, we at Border to Coast pledged our support in early 2019. The initiative is now supported by investors with over $13 trillion in assets under management.

Since launch, the initiative has made five calls for action, held four high-level investor roundtables and two global tailings summits. It has sought input from leading experts, communities impacted by the recent disaster, government representatives, leading technical advisors and mining companies. Its calls for action were to:

- set up an independent and publicly accessible international standard for tailings dams – this has led to a global review being convened;
- contact 726 listed extractive companies asking for specific disclosure of all tailings facilities – as at 31 March 2020 over 84% of the industry by market capitalisation have disclosed;
- create an independent global database to drive transparency and best practice – The Global Tailings Portal is now live;
- set up a Financial Working Group to look at the relationship with company annual reporting; and
- respond to community concerns. Affected communities have shared their stories with investor members, co-ordinated by LAPFF.

Border to Coast are part of a collaboration of investors supporting the initiative, led by Robeco, engaging with the non-responding companies to encourage disclosure of data and information on tailings dams.

The results and progress achieved by the initiative over the last year have been remarkable, due in no small part to the passion and leadership of its co-chairs, Adam Matthews and John Howchin. Working in partnership with others is helping to drive a new level of accountability and transparency and to promote positive change across the mining industry.

Location: East Riding

"Border to Coast became a signatory to the PRI in October 2019, enabling us to publicly demonstrate our commitment to long-term sustainable investment."

SUPPORTING COMPANIES THAT MAKE THE RIGHT DECISION

At the time of writing, we are in the midst of the COVID-19 crisis. Companies are doing their utmost to survive the devastating impact of economies in shut down. Boards need to strike the balance between short-term survival and the long-term sustainability of their business. Rather than making ESG issues less relevant, the crisis has emphasised the financial materiality and importance of ESG risks.

The 'social' aspects of ESG have tended to be somewhat overlooked in the past, but arguably they are now the most important. Companies are not only being scrutinised on how they are treating their workforce, suppliers and customers, but also on how they are supporting wider society.

As investors we need to be clear about our expectations and we need to support companies that make the right decisions. There are good examples of companies supporting their employees, executives taking pay cuts and forgoing bonuses, and of production lines being repurposed to manufacture healthcare items. The opposite is also true, with companies experiencing a backlash after treating workers and suppliers poorly.

How companies treat people and suppliers now will be remembered once the crisis is over and the 'new normal' begins. At Border to Coast, we are monitoring how companies are responding. We will engage where required and may use the information we gain to inform our voting decisions at next year's AGMs. As a responsible investor, we will support boards and management teams whose decision making is based on the long term.

We became a signatory to the PRI in late 2019, and following discussion with the Board and Partner Funds, have used the six principles as a framework for assessing our baseline and to set our three-year RI strategy. This was an important piece of work which sets out a clear timeline for strategic development and priority actions whilst understanding the needs of and support required by our Partner Funds. We have prioritised ESG integration and reporting, as these align with our investment beliefs and transparency value. Collaboration and promoting the Principles of the PRI are important in the longer term, as we seek to make the most of the stronger voice that scale brings. We have made good progress over the last 18 months ensuring we have strong foundations across all six areas and will be working hard to meet the expectations over the coming years.

We will continue to embed ESG into our investment process across all asset classes as we launch new sub-funds. We are working with our internal portfolio managers, Research Team and external managers, building on and improving the processes and tools we have in place. We will also manage ESG risks, including climate risk, through our active ownership programme.

Regulators are increasingly focusing on stewardship and climate change, and the revised UK Stewardship Code pays close attention to the activities and outcomes of stewardship across all asset classes. As we continue to launch equity and fixed income sub-funds and increase our Private Markets proposition, we are therefore developing our engagement approach and reporting accordingly. This year will pose new and different RI challenges, and we will be working with our external providers and managers to make sure we are fully prepared.

Our RI Strategy
Our three-year RI strategy was developed following discussions on the strategic direction of RI with our Board and Partner Funds, using the PRI Principles as a framework.

Our target for 2022 includes:

- Well embedded ESG tools and analysis across asset classes for both internally and externally managed sub-funds
- A holistic engagement framework in place, tracking milestones across portfolios and asset classes
- A well-researched approach to requiring disclosures to support our investment process
- The PRI Principles embedded throughout our procurement process and contract monitoring
- Being an active partner on RI collaborations
- Producing quality, transparent disclosures and reporting on Responsible Investment

Location: North Yorkshire

"Our focus over the next year will continue to be on our core engagement areas of governance, diversity and transparency and disclosure."

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Glossary

A

Active ownership
Investors using their voting rights alongside engagement to effect change and improve the long-term value of a company.

B

Best-in-class
Investing in companies that have performed better than their peers in meeting environmental, social and governance ('ESG') criteria within their industry or sector. It can also be considered as positive screening.

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C

Carbon footprint
The amount of carbon dioxide released into the atmosphere due to the activities of an organisation.

CDP
CDP is a global, investor-driven, climate change reporting scheme which motivates companies to disclose and reduce their environmental impacts by using the power of investors and companies.

Clean energy
Energy from non-polluting sources, including solar, wind and water.

Climate Action 100+
Climate Action 100+ ('CA100+') was launched in 2017 as a five-year investor-led initiative, to undertake collaborative engagement with the largest greenhouse gas ('GHG') emitters and other global companies.

Climate change
The long-term change in the expected patterns of average weather of a region (or the whole Earth), also linked to global warming.

Climate risks/opportunities
Risks/opportunities as a result of climate change that have the potential to affect companies, industries and whole economies. These include regulatory, reputational, transitional and physical risks and opportunities.

Conference of the Parties ('COP')
A UN conference on climate change that is held annually. The 25th conference ('COP 25') was held in Madrid in December 2019. COP21 negotiated the Paris Agreement, a landmark global treaty on the reduction of climate change.

Corporate governance
The system of rules, practices and processes by which a company is directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role includes appointing the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

Corporate Social Responsibility ('CSR')
The term under which companies report on their social, environmental and ethical performance, having recognised their responsibility to the community and environment in which they operate.

D

Divestment
Sale of stocks, bonds or investments seen as being in conflict or unaligned with ESG objectives, values or convictions.

E

Engagement
The practice of shareholders entering into dialogue with management of companies to change or influence corporate behaviour and decision making.

ESG
ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision making process. E, S, and G are the three key factors in assessing an investment's sustainability.

ESG integration
The incorporation of ESG factors and analysis into investment decisions.

Ethical investing
An investment approach that uses ethical values and beliefs as a screen for selecting investments.

Extra-financial
Elements of a company's behaviour that may not be captured in traditional financial reporting and analysis. ESG factors are often associated with extra-financial factors.

F

Fiduciary duty
Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Reporting Council (FRC)
Regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.

G

Global Compact (United Nations Global Compact)
The world's largest corporate sustainability initiative, asking companies to align strategies and operations with universal principles on human rights, labour, environmental concerns and anti-corruption, and to take actions that advance societal goals.

Green bonds
A bond specifically earmarked to be used for climate and environmental projects, also referred to as climate bonds.

Green investing
An investment philosophy that considers the environmental impact of an underlying investment.

Green-washing
When an unsubstantiated or misleading claim is made about the environmental benefits of a fund or financial instrument.

Glossary continued

I

Impact investing
An investment philosophy which supports companies working to provide significant societal or environmental benefit, in addition to generating a financial return. Impact investments can target a range of returns from below market to market rate, depending on investors' strategic goals.

Institutional Investor Group on Climate Change ('IIGCC')
IIGCC provides a collaborative forum for pension funds and other institutional investors to engage with policy-makers, regulators and companies to address the long-term risks and opportunities associated with climate change.

International Energy Agency ('IEA')
The International Energy Agency is an autonomous inter-governmental organisation that was established following the 1973 oil crisis. The IEA acts as a policy adviser to nations in the fields of energy security, economic development and environmental protection.

L

Low-carbon economy
An economy based on low-carbon power sources with minimal greenhouse gas emissions into the environment.

N

Negative screening
An investment approach that excludes some companies or sectors from the investment universe based on criteria relating to their policies, actions, products or services.

P

The Paris Agreement
The Paris Agreement sits within the United Nations Framework Convention on Climate Change. It sets out a global framework to avoid dangerous climate change by limiting warming to well below 2°C and was signed in 2016.

Principles for Responsible Investment ('PRI')
The United Nations-supported Principles for Responsible Investment initiative was launched in 2006. The world's leading advocate for responsible investment, it enables investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Proxy voting
Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

R

Responsible investment ('RI')
Responsible investment involves incorporating environmental, social and governance ('ESG') considerations into investment decision making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

S

Stranded assets
Typically refers to fossil fuel reserves that may become 'un-burnable' due to issues such as climate, regulatory or market changes.

Sustainable Development
The concept of meeting present needs without compromising future generations.

Sustainable Development Goals ('SDGs')
The SDGs are a collection of seventeen global goals covering a wide range of ESG issues, from poverty and health to gender equality and the environment, set by the United Nations General Assembly in 2015 for the year 2030.

T

Task Force on Climate-related Financial Disclosure ('TCFD')
Set up to develop voluntary, consistent, climate-related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders.

The Transition Pathway Initiative
The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

U

United Nations Global Compact
An initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and report on their implementation.

UN Guiding Principles ('UNGP') on Business and Human Rights
A global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity. The UNGPs encompass three pillars outlining how states and businesses should implement the framework.

UK Stewardship Code
A code first published by the Financial Reporting Council in 2010. The Code underwent a substantial revision in January 2020 ("UK Stewardship Code 2020").

W

Workforce Disclosure Initiative
The Workforce Disclosure Initiative (WDI) was launched in 2017. It was set up to improve data disclosure from listed companies on how they manage workers in their direct operations and supply chains.

Location: Lincolnshire

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BORDER TO COAST

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Location: Northumberland

BORDER TO COAST

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BORDER TO COAST
TCFD REPORT 2019/20

Appendix C

Introduction

As a long-term investor Border to Coast Pensions Partnership practises active ownership across all asset classes. Responsible Investment ('RI') is a core value and central to our corporate and investment philosophy. We operate collective investment vehicles covering a comprehensive set of asset classes in which the Local Government Pension Scheme Funds who are our customers and shareholders ('Partner Funds') can invest to implement their strategic asset allocations.

The responsibility for asset allocation, an important part of managing climate risk, remains with our Partner Funds. We work closely with our Partner Funds to provide RI support including on climate change. We established a joint climate change working party during 2019 and continue to hold quarterly RI review sessions which include a regular climate change update. Partner Funds have a significant role in the annual review of our RI policy.

We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact affect investments. We believe that climate change is a systemic risk with potential financial impacts associated with physical impacts and the transition to a low-carbon economy under different climate scenarios. We believe that these pose significant investment risks, as well as opportunities, with the potential to impact long-term value across all asset classes.

Border to Coast therefore supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD'). As a representative of asset owners, we have a role to play in influencing the companies and organisations in which we invest to take account of climate change, including the provision of better climate-related financial disclosures, enabling us to make better informed investment decisions. How we do this is outlined in our Responsible Investment and Stewardship Report which, together with further information regarding our approach to sustainability more generally, can be found on our website.

As a relatively new company based in a single location with fewer than 100 colleagues, Border to Coast's exposures to climate change come predominantly from the investment funds that it manages on behalf of its Partner Funds. This first report therefore is primarily focussed on the climate risk associated with our investment funds. From inception we put measures in place to be a sustainable organisation. For example, our central Leeds location enables staff to commute by public transport; we use technology to be paperless as far as is practicable keeping printing to a minimum; and we recycle where possible. We are developing our Corporate Social Responsibility reporting and will provide more disclosure on the organisational metrics in next year's report.

This is our first report in line with the TCFD recommendations and sets out our approach to managing climate-related risks and opportunities within the four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets. TCFD recognises that some organisations are more advanced than others in reporting on climate-related disclosures, that this is a journey with expectations that disclosures will evolve and become increasingly sophisticated. We certainly anticipate that, in conjunction with the partners with whom we work, we will continue our own journey over the coming years.

Contents

Location: Teesside

ASSESSING AND MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES

TCFD report

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Governance
The organisation's governance around climate-related risks and opportunities.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk management
The processes used by the organisation to identify, assess, and manage climate- related risks.

Metrics and targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Describe the Board's oversight of climate-related risks and opportunities.

The Board and its committees determine the Company's overall strategy for risk management, overseeing the identification and management of risk. The Board is responsible for oversight of climate-related risk as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which incorporate the approach to climate change and associated risks and opportunities.

Updates on Responsible Investment are presented to the Board at regular intervals, including activities related to climate change. The Board met ten times over the financial year to 31 March 2020, and the Board Audit and Risk Committee seven times, with agenda items covering investment, Responsible Investment and risk management.

The Board has reviewed and approved this TCFD report prior to publication.

Describe management's role in assessing and managing climate-related risks and opportunities.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the RI policy, which includes climate risk, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Border to Coast practises active stewardship, using its voting rights and engaging with companies on environmental, social and governance ('ESG') factors, which include climate-related issues. Portfolios are screened using third party ESG and carbon data on a quarterly basis; findings are discussed with portfolio managers who take the findings into account in their investment decision making. Reports, which include voting and engagement statistics, ESG and carbon data, and updates on collaborative Responsible Investment initiatives, such as Climate Action 100+, are presented to the Investment Committee for monitoring.

A Climate Change Working Party was held across six sessions during 2019 to increase knowledge across Border to Coast and the Local Government Pension Scheme Funds who are our customers and shareholders ('Partner Funds'). The resulting research and conclusions are used to allow us to assess and manage climate risk and opportunities.

OUR STRATEGY TO MANAGE RISK

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

As set out in our Responsible Investment policy, which can be found on our website, Border to Coast considers climate-related risks over the short, medium, and long term. We believe that climate-related risks and opportunities can be presented in several ways, including but not limited to:

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

Strategies to manage risk can vary between asset classes. We look to understand and mitigate risk and to take advantage of climate-related opportunities within our public equity (where we favour long term sustainable cash flows) and our private market (equity and debt financing including infrastructure) investment portfolios. For fixed income mandates the focus is on protecting and limiting downside risk. As the transition to a low-carbon economy emerges, we want to ensure we are lending to companies with viable future business plans, thereby offering investment opportunities within the evolving real asset space.

Environmental, social and governance ('ESG') issues are integrated into the investment decision making process with climate-related risks identified and integrated as part of this process. We use third party ESG and carbon data alongside internal and external research to help identify risks. We also use the Transition Pathway Initiative ('TPI') toolkit to assess companies and inform company engagement.

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Our strategic business planning process also takes into account our customers' needs and expectations with respect to Responsible Investment, including climate change risk. To date this has allowed us to develop and embed the tools to support our portfolio managers in investment decision making (for both internally and externally managed mandates). A strategy has been agreed for the next three years to continue our development; this is kept under regular review by the Board and our Partner Funds.

We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect the investments we make on behalf of our customers. Climate risk and opportunities are considered when conducting internal research and stock selection in the portfolios managed by our internal investment teams. Climate risk is factored into the selection and appointment of external managers and ongoing monitoring of these mandates. Climate-related risks are monitored across internally and externally managed portfolios. This in turn informs our engagement strategies, through collaborative initiatives and direct engagement.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The strategy of the organisation is unlikely to change significantly under different climate change scenarios as our customers and shareholders are long-term investors requiring multi-asset solutions that in most plausible scenarios will continue to require investment services. However, it is important to recognise that their investment strategies may change in the future and hence ongoing discussion with Partner Funds is a vital element of the Border to Coast's business strategy.

Climate change and the potential risks and opportunities it brings are considered across the investment propositions that have been developed for our customers, when conducting research, risk analysis, due diligence and ESG screens.

We understand that scenario analysis is useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve. We have not carried out scenario analysis on any portfolios as yet, but this is something we will be considering in the future in conjunction with our Partner Funds.

MANAGING RISKS

Describe the organisation's processes for identifying and assessing climate-related risks.

All business areas are responsible for identifying risks, with senior managers accountable for the identification of risks within their span of control. Risk can be identified via a number of drivers including, but not restricted to, process, strategy, horizon scanning, risk category and scenario analysis. All identified risks are included in the Company's risk register (departmental, corporate and/or emerging). These risks are reviewed periodically and formally assessed at least twice a year, with material risks reported to the Board Risk Committee on a quarterly basis.

Material ESG issues, which include climate change risk and opportunities, are considered as part of the investment decision making process. In order to measure climate-related risks, we utilise third party carbon data to implement a carbon screening tool across internally and externally managed portfolios. This produces a carbon footprint relative to the portfolio benchmark allowing for internal analysis of carbon risks. This is used alongside other tools such as the TPI tool and engagement data, to understand intrinsic risk at stock, sector and portfolio level.

Describe the organisation's processes for managing climate-related risks.

We manage climate-related risks in a number of different ways:

- We work with our internal portfolio managers and with our external asset managers to firstly understand the risk.
- Climate-related risk and opportunities are addressed during the selection and appointment of external asset managers and as part of ongoing monitoring of managers and portfolios. Climate risk is covered during the due diligence process for private market investments.
- We engage with portfolio companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations and encourage companies to adapt their business strategy in alignment with a low-carbon economy. We encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions. Engagement is conducted by our engagement partner; through our support of collaborations such as the Climate Action 100+ and the Local Authority Pension Fund Forum ('LAPFF'); we also expect our external asset managers to engage with companies on climate risk.
- As members of the Institutional Investor Group on Climate Change ('IIGCC') we engage collaboratively alongside other institutional investors with policy makers.
- We vote all equity portfolio holdings according to our Corporate Governance & Voting Guidelines which are administered by our voting and engagement provider.
- We support climate-related resolutions at Company meetings which we consider reflect our RI policy and co-file shareholder resolutions at Company AGMs on climate risk disclosure, after conducting due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.

Describe how processes identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Border to Coast uses a financial industry standard "three lines of defence model" where the business functions are responsible for managing both the risks that they explicitly take and the risks that arise as a result of their activity, so acting as the first line of defence. The Compliance and Risk team oversee risk management and act as the control function providing the second line of defence, with internal audit providing the third line of defence.

Border to Coast uses a risk management framework to identify, assess and manage risks. The business function generating the risk must own, identify, assess, control, monitor, manage and report on its risks.

The Risk and Compliance function provides independent oversight and also ensures that an effective escalation process is in place for all risks outside of the agreed risk appetite and for risk events. Risks requiring escalation are reported to the Executive Risk Committee, which is chaired by the Chief Risk Officer, the Board Risk Committee and the Board.

Climate-related risks are recognised in department risk registers and the corporate risk register and managed accordingly. They are also recognised in the Company's emerging risk register.

ASSESSING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Border to Coast uses several different tools to assess climate-related risk and opportunities.

Third party carbon data, where available, is used to implement carbon screening across portfolios. This produces a carbon footprint relative to the portfolio benchmark allowing for internal analysis of carbon risks:

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- We use MSCI carbon portfolio analytics to screen equity portfolios on a quarterly basis. This enables us to assess portfolios in a timely manner, identifying the largest emitters and contributors to the carbon footprint. This data and information are shared with the portfolio and research managers to inform analysis and investment decisions.
- Although the coverage of emissions data is not as complete for fixed income as an asset class, we will be working with our external managers and our carbon data provider to screen fixed income portfolios once they have launched.
- Carbon footprinting of unlisted investments is challenging as few private companies measure and report emissions data. We have not, therefore, to date conducted carbon footprints across our private market portfolios, which are nascent in their development with the first commitments made during the financial year ending 31 March 2020. This is an area in which we would like to see the industry develop to enable us to monitor our private market portfolios as they grow and mature.

Carbon footprinting a portfolio is only the first step in addressing the investment implications of climate change. It is important to acknowledge that it is only part of the "toolbox" and does not lend itself well to being viewed in isolation. In particular:

- Any footprint measure is only as good as the underlying carbon emissions data; in some markets data disclosure is patchy requiring estimations by data providers. The carbon footprint looks at a point in time and is by nature backwards looking and a static metric that measures only one aspect of a portfolio's exposure to climate-related transition risk. We need to identify trends developing as the data we have increases.
- Carbon footprints only measure the negative contribution of a portfolio to climate change and ignore the potential positive contribution to the energy and climate change transition. Reducing holdings to cut portfolio emissions can in some cases be counterproductive as companies with high current emissions may be providing the future solutions for a transition to a low-carbon economy.

As noted, carbon footprinting, whilst useful, has its limitations and the results need to be used together with other methodologies to develop a more holistic understanding of the underlying contribution and exposure to risk. We therefore consider other metrics to help our understanding of the potential risks and opportunities within portfolios:

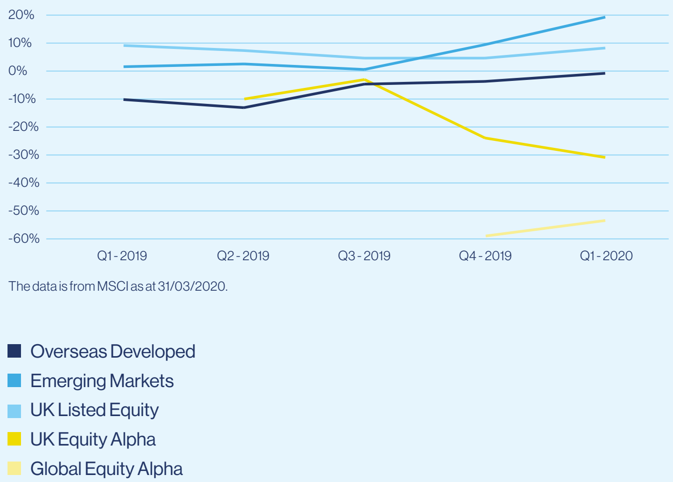
- We look at carbon emissions, carbon intensity and weighted carbon intensity when assessing carbon-related risk. Weighted carbon intensity (the metric recommended by the TCFD) measures a portfolio's exposure to carbon intensive companies and indicates a portfolio's exposure to potential climate change-related risks relative to other portfolios or a benchmark.
- TPI analysis is also used to support portfolio managers in their decision making and to oversee the risks within the portfolios. Carbon footprinting and TPI analysis are used to map our engagement activity undertaken through collaborations such as Climate Action 100+ and our external engagement provider.

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse ('GHG') emissions, and the related risks.

At the time of this report Border to Coast has investments in listed equities, and private markets and fixed income. We have not undertaken carbon footprinting of our private markets portfolios in part due to the limited available data and in part due to the relative maturity of these portfolios as commitments only commenced during the financial year. Our first fixed income fund (Sterling Investment Grade Credit) was launched during February 2020 and is not covered in this report given the part period. Further fixed income funds are due to be launched in the next year (index-linked gilts and multi-asset credit).

We consider carbon emissions, carbon intensity and weighted average carbon intensity in assessing risks when conducting carbon footprints. The table below gives the carbon data for all three metrics as at 31 March 2020 for the listed equity portfolios. This is the first full year reporting on carbon metrics.

Weighted carbon intensity relative to benchmark: 31/03/19 – 31/03/20

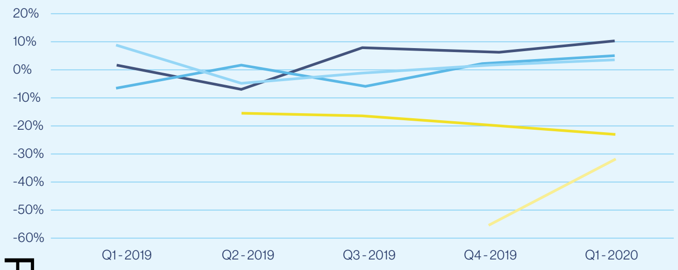


The data is from MSCI as at 31/03/2020.

	Weighted average carbon intensity (t CO_2e / $m sales)		Carbon intensity (t CO_2e/$m sales)		Carbon emissions (per $m invested)	
Portfolio	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Overseas Developed	166	168	237	214	184	178
Emerging Markets	379	319	467	445	378	381
UK Listed Equity	136	126	165	159	180	194
UK Listed Equity Alpha	87	126	122	159	170	194
Global Equity Alpha	76	164	93	136	93	139

Metrics and targets continued

Carbon intensity relative to benchmark: 31/03/19–31/03/20



The data is from MSCI as at 31/03/2020.

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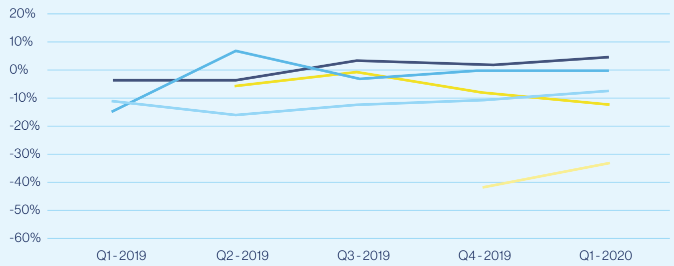
- Overseas Developed
- Emerging Markets
- UK Listed Equity
- UK Equity Alpha
- Global Equity Alpha

Carbon emissions relative to benchmark: 31/03/19–31/03/20



The data is from MSCI as at 31/03/2020.

- Overseas Developed
- Emerging Markets
- UK Listed Equity
- UK Equity Alpha
- Global Equity Alpha

Border to Coast's current funds are actively managed, and carbon footprints will differ from the index due to investment decisions made. Carbon footprints can increase at the same time as the carbon intensity decreases in a portfolio, and vice versa, and without the full picture it is impossible to understand the reasons behind this.

Some companies with a high-carbon footprint may be important actors in the move to renewable energy and the transition to a low-carbon economy. Portfolio managers are required to document the investment rationale for the inclusion in the portfolio of companies with high-carbon footprints to enable challenge and ongoing review.

We have a mix of internally and externally managed funds with differing styles, risk/return parameters and varying degrees of portfolio concentration versus benchmarks; all these factors have an impact on carbon metrics. We note in particular that the internally managed funds have less concentrated portfolios than the externally managed funds, which means that they are more likely to exhibit a carbon footprint that is closer to that of the benchmark.

We note that towards the end of the reporting year, there were some significant movements away from trend in the carbon footprinting data by some portfolios, as can be seen in the charts above. There are a number of reasons for this movement, and portfolio managers within Border to Coast are continuing to keep this under review. COVID-19 has impacted stock markets and company valuations, leading to considerable falls in benchmarks' total market capitalisation in Q1 2020, affecting some sectors more than others. This latter point resulted in a higher allocation to, and ownership of, companies with higher emissions. MSCI observed this across many benchmarks.

The carbon data allows us to identify the largest emitters and contributors to the overall carbon footprint by portfolio. This is used alongside other data and tools at our disposal to further analyse the potential risks and opportunities within portfolios. These include exposure to fossil fuel reserves, strength of carbon risk management and clean technology exposure. We also utilise the data from the Transition Pathway Initiative to track how portfolio companies are managing climate risk.

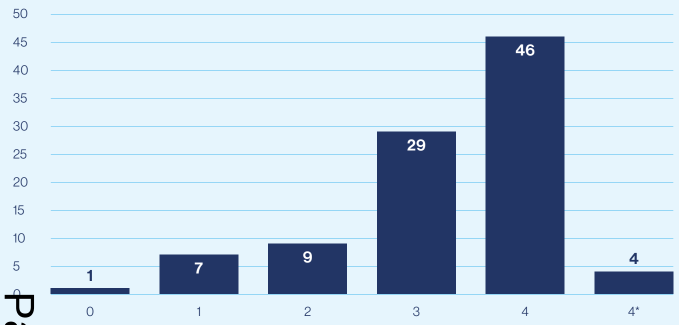
Carbon emissions (per million dollars invested)
Carbon Emissions normalises the carbon emissions for every $1,000,000 of market value. As a normalised metric, it can be used to accurately compare portfolios of any size. It is sensitive to changes in market value of the portfolio and is only applicable to equity portfolios.

Carbon intensity
Carbon intensity expresses the carbon efficiency of the portfolio and allows investors to measure the volume of carbon emissions per dollar of sales generated by portfolio companies over a specified time frame. This metric adjusts for company size and is a more accurate measurement of the efficiency of output, rather than a portfolio's absolute footprint. It requires underlying issuer market cap data. It is only applicable to equity portfolios.

Weighted Average Carbon Intensity (WACI)
This measures a portfolio's exposure to carbon intensive companies. Companies with higher carbon intensity are likely to face more exposure to carbon related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios or relative to a benchmark. Carbon emissions are apportioned based on portfolio weights / exposure, rather than the investor's ownership share of emissions or sales. WACI gives the ability to compare data more easily across asset classes.

Metrics and targets continued

TPI Levels - Border to Coast Portfolio Companies



A total of 96 Border to Coast portfolio companies have been rated by the Transition Pathway Initiative ('TPI') representing approximately 15% of our assets under management. Out of the 95 portfolio companies rated by the TPI, a total of 79 (83%) were ranked Level 3/4/4* for their Management Quality of carbon. TPI determines that these companies are "integrating climate change into operational decision making" and/or making a "strategic assessment" of climate.

We map the largest emitters against the TPI scores, which shows improvements in company practices over time and identifies targets for engagement. This information is also used to inform voting decisions. The majority of the largest contributors to carbon footprint across our portfolios are covered by collaborative engagement initiatives, with some notable gaps in Japan and Emerging Markets. As noted above, portfolio managers provide investment rationale for holding the top emitters in portfolios, including consideration of the long-term sustainability for those companies.

Weight of companies owning fossil fuel reserves

Portfolio	Weight of companies owning fossil fuel reserves	Benchmark weight of companies owning fossil fuel reserves
Overseas Developed	7%	7%
Emerging Markets	11%	9%
UK Listed Equity	14%	15%
UK Equity Alpha	12%	15%
Global Equity Alpha	2%	6%

The percentage of portfolio companies owning fossil fuel reserves are broadly in line or underweight with their respective benchmarks.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance targets.

We actively engage with companies in relation to carbon risk management; however, the decision, along with Partner Funds, has been made not to introduce carbon reduction targets for portfolios. This will remain under review.

The Transition Pathway Initiative (TPI)

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers; it uses a framework to evaluate the quality of companies' management of greenhouse gas emissions associated with their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. Companies' management quality is assessed against a series of indicators, covering issues such as company policy, emissions reporting and verification, targets, strategic risk assessment and executive remuneration. Based on their performance against the indicators companies are placed on one of six levels:

- Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue
- Level 1 – Acknowledging Climate Change as a Business Issue
- Level 2 – Building Capacity
- Level 3 – Integrated into Operational Decision making
- Level 4 – Strategic Assessment
- Level 4* – Satisfies all management quality criteria

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Appendix IV: Border to Coast RI Strategy 2020-23 In Summary

As long-term investors we believe that Responsible Investment is fundamental to our investment process and risk-adjusted returns. It is also an area of significant regulatory change and escalating political scrutiny, with new regulations coming and many Partner Funds' administering authorities declaring climate change emergencies.

We have undertaken a review of our approach to Responsible Investment during 2019. Our strategic framework is based on the six Principles of Responsible Investment, considering both Border to Coast directly and also how we can best work with Partner Funds in meeting their responsibilities.

This has involved setting stretch targets for each of the principles as shown in the table below. The Board believes that the priority areas for development are principles 1, 2 and 6 (integration of Environmental, Societal and Governance factors in investing; active ownership ("stewardship"); and clarity of reporting).

Principle	2022 target – Border to Coast	Partner Fund Role
1. Integrating ESG	ESG-related tools and analysis well embedded and used by internal PMs External managers held to account	Long-term ESG factors are taken into account when setting strategy Border to Coast, and managers of any legacy positions, are held to account
2. Active ownership	Holistic approach to engagement across portfolios and asset classes Clear voting indications for companies and public	RI policy and voting guidelines clear Support shareholder initiatives LAPFF
3. Require disclosure	Well-researched standard approach to requiring disclosures to support our investment process	Work with all managers to engage with companies on disclosure Become signatories to (and supporters of) various initiatives
4. Promote PRI	Principles embedded throughout our procurement processes and ongoing monitoring of contracts	Work with all managers (and other suppliers) to require work in line with PRI / become a signatory
5. Collaboration	Seen as a strong junior partner on collaborations with a strong network of collaborators	Support industry-wide collaborations
6. Reporting	Border to Coast and Partner Funds are well known for strong disclosures that set a benchmark for others	Transparency of approach to RI shared publicly (website, annual report & accounts, public statements)

Having identified targets, a gap analysis was carried out, and the following development areas were identified. These are in addition to "Business as Usual" activities.

Principle	Border to Coast strategic development	Partner Fund support
1. Integrating ESG	Embed investment process and enhance ESG tools including Robeco portal Training programme for PMs on thematic issues External manager monitoring framework Develop frameworks for new asset classes (bonds, property, private markets)	Current: education (e.g. climate working party); transparency of reporting; oversight of (pooled) managers
2. Active ownership	Create holistic engagement framework to enable tracking of milestones across portfolios Clear process for setting engagement themes	Current: common policy agreed and implemented for all Border to Coast holdings; education; LAPFF - representation at business meetings Future: training
3. Require disclosure	Review of industry initiatives to prioritise Gap analysis of portfolios and remedial plan Review Border to Coast disclosure	Current: engagement in respect of Border to Coast portfolio holdings and support for wider initiatives Future: Share review of wider disclosure developments
4. Promote PRI	External manager engagement framework Review wider procurement framework for ESG	Current: training for officers and committees Future: materials for websites
5. Collaboration	Develop collaboration capability by working with Robeco on an engagement Continue to build network and external profile	Current: collaborate in respect of Border to Coast engagement themes and portfolio holdings
6. Reporting	Enhance reporting on engagement and themes Standardise reporting across external managers Improve transparency	Current: disclosure on our website of voting and engagement activity, RI policy and voting guidelines Future: review of Partner Fund websites and development of checklist / materials for sharing

A plan to implement the activities highlighted above over the period to 2023 has been made.

PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Joint Committee

Date of Meeting: **1 October 2020**

Report Title: **Border to Coast Market Review (for information and read only)**

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

1 Executive Summary:

1.1 This report provides an overview of 2020 market performance and macroeconomic environment.

1.2 Following a sharp sell-off in Q1 2020, equities rallied strongly during Q2-3 2020 and are now positive year-to-date.

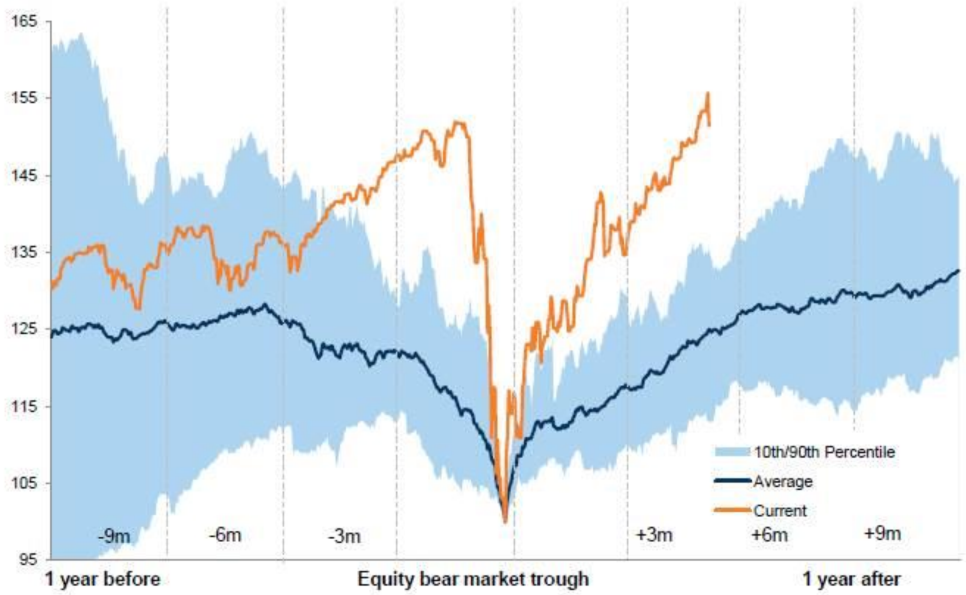
2 Recommendation

2.1 That the report be noted.

3 Market Performance

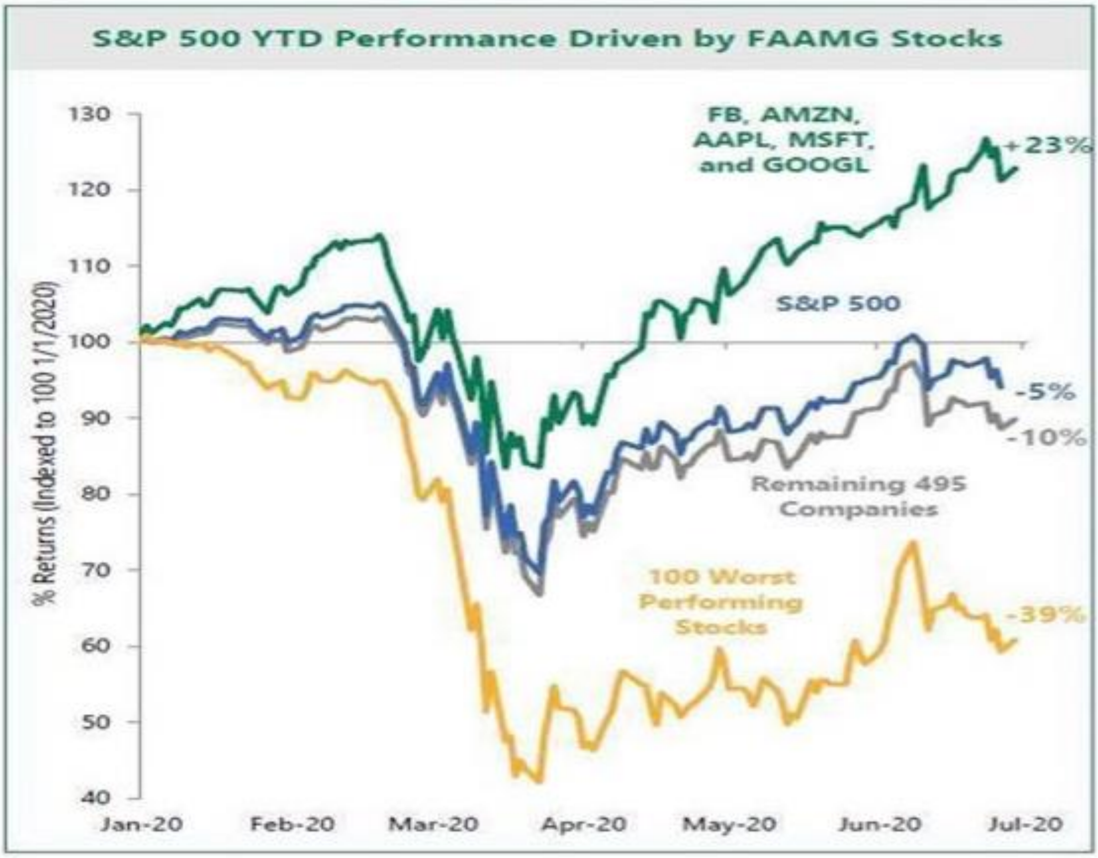
3.1 Looking at historical market falls and recoveries (since 1970) shows the severity of both the market decline and the subsequent rebound. However, the speed of the market rebound (orange line) was much quicker than typical average recovery (dark blue line) and outside the 10-90th expected percentile outcomes (blue shaded area):

Exhibit 2: Global equities have rebounded quite sharply since the end of March compared with usual post-bear-market recoveries
MSCI World around bear markets since 1970



3.2 The combination of an improvement in public health outlook (flattening virus trend) with unprecedented monetary (largest quantitative easing programs in history) and fiscal (largest US budget deficit post-war era) stimulus reflated markets to fully recover the drawdown. The Policy Stimulation was expedient versus 2008-09 GFC crisis (weeks rather years taken to effect EU monetary easing) and additionally the GFC combined loose monetary policy with tight fiscal policy (EU austerity) whereas now have both loose monetary and fiscal policy with a faster and broader policy program (e.g. US Fed ability to purchase corporate bonds).

3.3 Recovery in markets has not been uniform with the large cap technology FAANG stocks (green line) outperforming remaining 495 S&P companies (grey line) by over 30%:

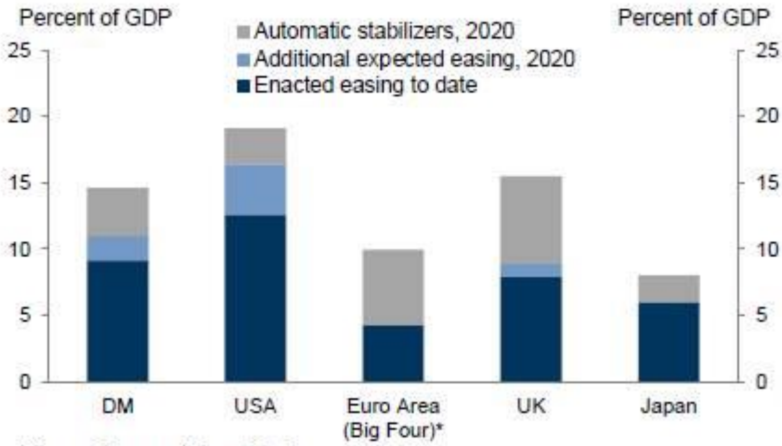


3.4 Unusual for largest companies to outperform index as typically targeted from both top (regulators) and below (competitors). This outperformance level has pushed the Growth (expensive stocks) to Value (cheapest stocks) ratio into the 100% percentile outcome (i.e. most extreme in history).

4 Macroeconomic Environment

4.1 Monetary support has provided a central bank ‘put’ (a belief central banks will provide as much liquidity as required) alongside extended forward guidance of zero interest rates. Expanded fiscal programs have provided a government ‘put’ (a belief governments will step in to prevent economic downturn). The combined (and coordinated) programs have reduced systemic risk and supported the performance of risky assets. Fiscal stimulus programs ranged between 10-20% GDP with US supplementing state unemployment insurance with a federal package that actually increased average earnings during COVID crisis!

Exhibit 4: Fiscal easing in response to the 'coronacrisis'
Discretionary policy actions taken since the outbreak that led to higher government expenditure or lower tax receipts



* France, Germany, Italy, and Spain

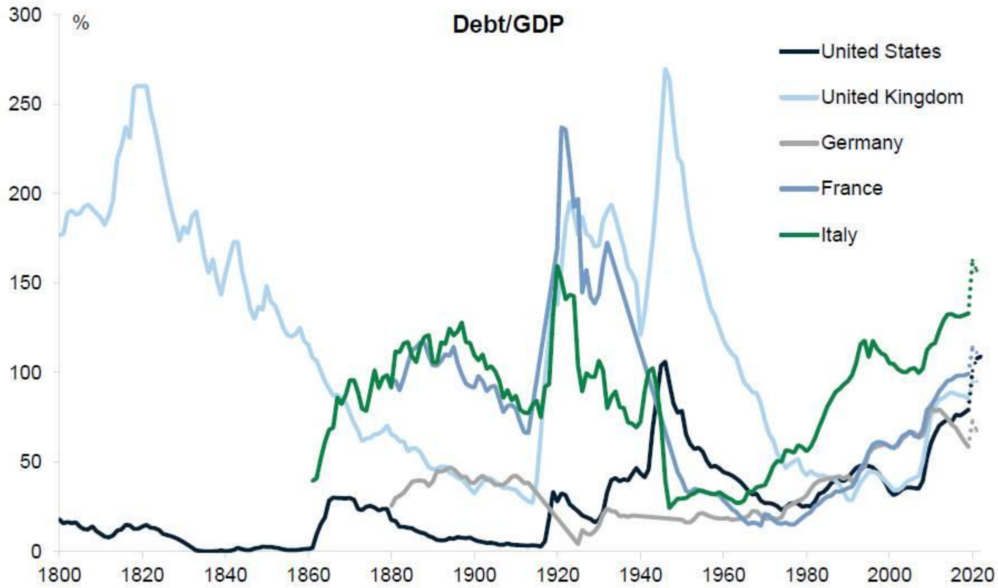
4.2 The US Federal Reserve has also adopted an Inflation Averaging target meaning that they now need to overshoot inflation target to offset any inflation shortfall and the Fed recently noted that they would keep rates flat until achieved target of full employment AND inflation exceeded their 2% target (for some time). As cannot lower nominal rate further they are attempting to lower real rates by increasing inflation / inflation expectations.

Real interest rate = Nominal rate – Expected future inflation

...so, real rates can be lowered either by:
(a) **lowering** nominal policy rates, or
(b) **raising** inflation expectations

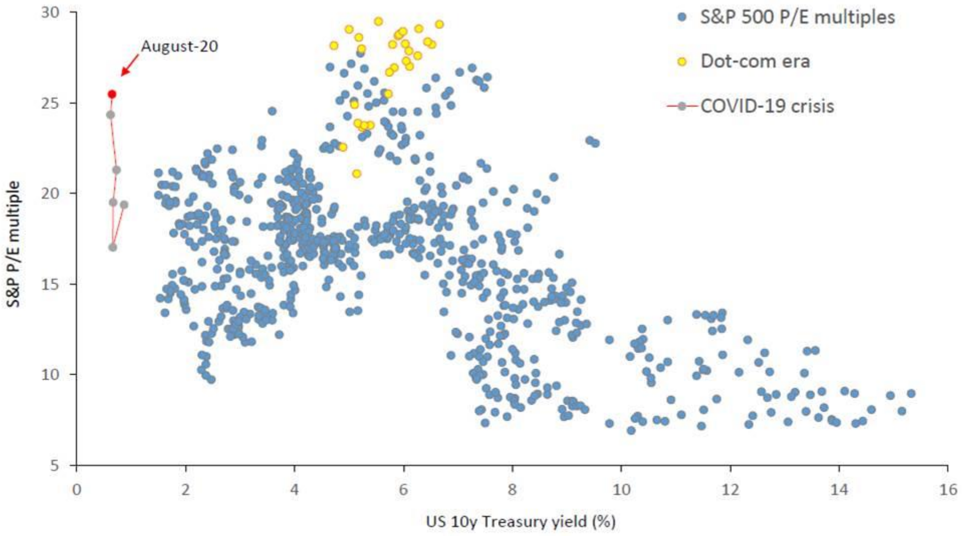
4.3 Global debt levels remain elevated so higher future inflation would help reduce future debt burden:

Exhibit 26: Government debt as a percentage of GDP
Dotted line: GIR Economics forecast

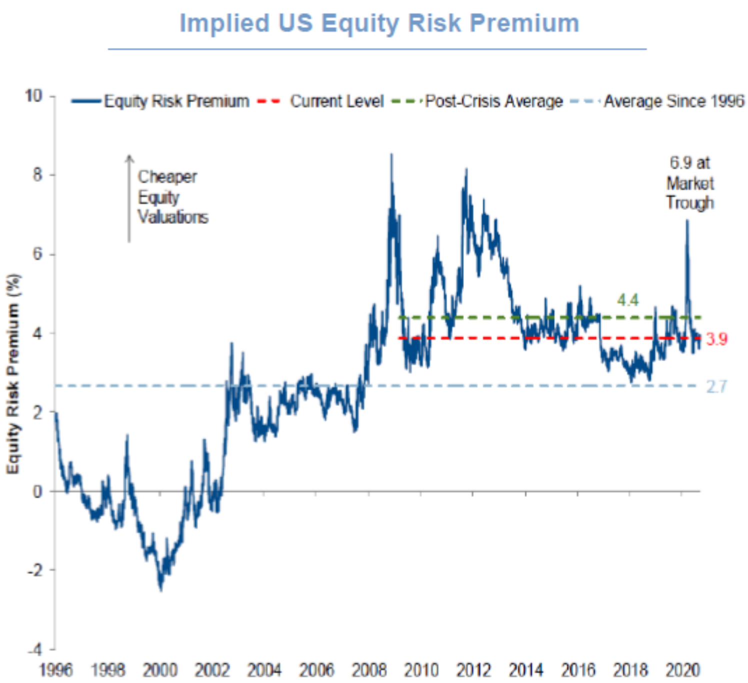


US data from IMF before 1939. For all other countries, data from IMF for the entire period

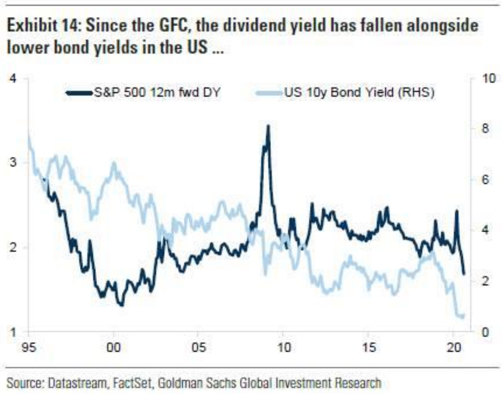
4.4 US Equities appear moderately expensive on traditional price-to-earnings ratio but Equity Risk Premium (dividend yield or earning yield minus bond yield) has room to contract.

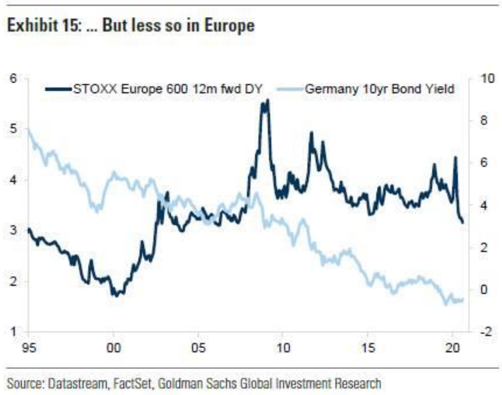


4.5 Current US Equity Risk Premium (earning yield – bond yield) of 3.9% (red line) IS ABOVE 2.7% average (dotted blue line):



4.6 Equities are cheap relative to Corporate bonds with 60% US and 80% EU companies having dividend yields above corporate bond yield:



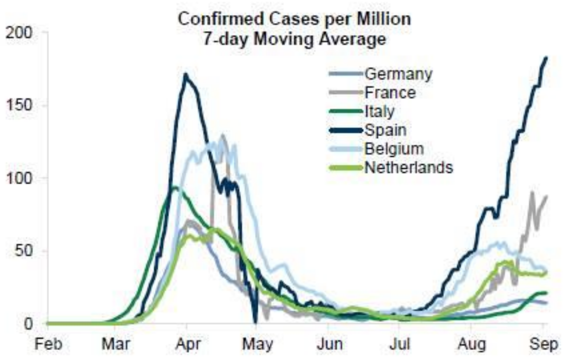


4.7 Room for Equity Risk Premium (ERP) to contract (support future equity performance) whilst investor focus on high price-earnings ratio and mis-value equities as done with bonds for the last 10 years.

5 COVID Update

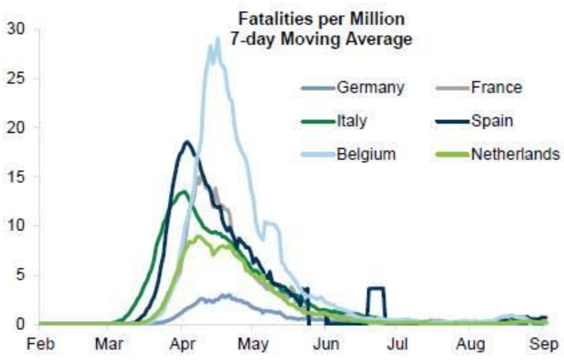
5.1 COVID cases in Europe are accelerating although partly due to increased testing (much lower relative percentage positive test) and the fatality rate remains contained (partly due to spread amongst less vulnerable young members of community alongside better treatment):

Exhibit 8: A second wave
Confirmed cases per million (7-day moving average)



Source: Goldman Sachs Global Investment Research

Exhibit 9: The fatality rate from the recent virus spike has not risen
Fatalities per million (7-day moving average)



Source: Goldman Sachs Global Investment Research

6 Conclusion

6.1 Q1 2020 equity market sharp drawdown from lower earnings and expanding risk premiums was followed by a rapid recovery due to the combination of massive fiscal and monetary stimulus alongside a flattening infection curve.

6.2 The Fed moving to an inflation average target is a clear indication of their intended future direction. Although near-term inflation outlook remains subdued (next 18 months), pension plans with long-dated inflation linked liabilities should be cognisant of longer-term inflation risk and potential impact on their assets and liabilities.

7 Report Author:

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18th September 2020

Important Information

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Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 30 June 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 29 September 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 11 September 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Fund over Q2 2020.

2. The Committee is recommended to note this report.

Background

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

4. The Fund has a quality bias with a focus on companies that can generate long term sustainable growth and benefit from long term demographic trends. Border to Coast are long term investors and we expect 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 £3.9bn.

Performance

10. Performance to the quarter end is shown below:

	Since inception 26/07/18 % pa	**Year %**	**Quarter %**
UK Listed Equity Fund	-5.09	-11.69	10.16
FTSE UK All Share Index	-6.77	-12.99	10.17
Actual Variance[1]	+1.68	+1.31	-0.01
Target Variance[2]	+1.00	+1.00	+0.25
Performance Relative to Target[3]	+0.68	+0.31	-0.26

[1] Fund performance minus Benchmark performance.
[2] Based on the Fund's Performance Objective
[3] 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 broadly in line Benchmark for Q2 2020 but continues to meet the Performance Objective over longer periods.

12. The quarterly performance of the Fund was due to the following factors:

13. A bias toward quality companies with relatively strong balance sheets and resilient business models. This was, however, partly offset by underweight to smaller companies, which rebounded in the recent market bounce, and a modest overweight to high yielding companies which experienced dividend cuts.

14. Exposure to companies with overseas earnings, which have benefited from relative weakness in sterling.

15. Overweight to Materials which benefited from a recovery in commodity prices.

16. Underweight to Financials, where Banks and Insurers underperformed due to lower bond yields and an expected increase in COVID-19 related claims.

17. Strong stock selection in Financials, with a bias towards asset managers who benefited from a recovery in equity markets, offset by weaker selection in Consumer sectors, predominantly due to less exposure to beneficiaries of COVID-19 disruption.

18. Performance dilution from modest cash holdings.

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

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
HSBC (u/w)	3.61	3.97	0.26	Impact of the deteriorating situation in Hong Kong, as China seeks to impose greater control has weighed heavily on the shares.
Biotech Growth Trust (o/w)	0.72	0.02	0.21	Momentum in the biotech sector has been particularly strong. Development of vaccines for COVID-19 has attracted interest.
BHP Billliton (o/w)	2.66	1.77	0.15	Benefited from higher iron ore and copper prices, driven by stronger demand from China and ongoing supply restrictions.
Herald Investment Trust (o/w)	0.60	0.05	0.12	With a focus on technology and communications, portfolio holdings have benefited significantly from COVID-19 disruption..
Antofagasta (o/w)	1.21	0.17	0.10	Benefited from higher copper prices driven by robust demand from China and COVID-19 related supply restrictions
Glencore (u/w)	0.00	0.95	-0.19	Despite ongoing investigations and a new criminal probe opened by Swiss authorities, has benefited from rebound in commodities.
Ocado (u/w)	0.00	0.48	-0.16	UK online grocery delivery has seen a significant spike in demand during the COVID-19 lockdown.
Scottish Mortgage Inv Trust (u/w)	0.00	0.61	-0.14	Biased towards global large-cap technology companies which have benefited during the COVID-19 lockdown.
Flutter Entertainment (u/w)	0.00	0.65	-0.11	US sports betting continues to grow as states legalise online sports betting - Flutter completed the acquisition of Stars Group.
Just Eat Takeaway (u/w)	0.00	0.51	-0.10	Performed well during the lockdown despite announcing its intention to acquire US operator GrubHub in an all-share deal.

Source: Northern Trust & Border to Coast

Portfolio Structure

20. 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	+1.58
Industrials	+0.83
Basic Materials	+0.80
Oil & Gas	+0.40
Consumer Goods	+0.39
Financials	-3.23
Consumer Services	-2.50
Utilities	-0.36
Technology	-0.24
Health Care	-0.14

Source: Northern Trust

21. Common Stock Funds (o/w) – exposure to smaller companies and sector-specialist investments via collective vehicles with long-term track records of outperformance.

22. Industrials (o/w) – diversified sector benefiting from exposure to longer-term growth in global investment capital expenditure.

23. Basic Materials (o/w) – strong cash generation enabling significant debt reduction, increased shareholder distributions, and increased capital investment over the long term.

24. Financials (u/w) – underweight in Banks due to concerns over UK consumer debt, rising unemployment, growing impairments linked to COVID-19 lockdown and residual Brexit uncertainty, partly offset by overweight positions in Insurers and Wealth Managers, which are expected to benefit from increase in Asian and Emerging Market wealth.

25. Consumer Services (u/w) – high street and leisure expected to continue to see pressure on discretionary spending from a more cautious UK consumer, slow footfall recovery from COVID-19 shutdowns and high occupancy costs; high street retail remains structurally challenged by increased online penetration.

26. Utilities (u/w) – regulatory and political headwinds alongside increased scrutiny of shareholder returns.

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

- BT (£8.4m) – added on weakness around the dividend cancellation as the longer-term valuation appears attractive.
- British American Tobacco (£7.0m) – reduced underweight position – strong financials and easing of regulatory headwinds.
- HSBC (-£5.1m) – increased underweight position as the situation in Hong Kong deteriorated further.
- Antofagasta (-£3.9m) – trimmed overweight position as the shares benefited from recovery in copper prices.

Risk Profile

28. 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 1.17%, just inside the risk appetite of 1% - 3%.
    - The ex-ante (forward looking) tracking error as of quarter end was 1.15%, just inside the risk appetite.
    - The risk profile had already been positioned at the lower end of the target range due to uncertainty regarding Brexit, which has been beneficial as the coronavirus pandemic hit markets. We do not anticipate any material change to the risk profile of the Fund.

Market Background

29. After the global equity market fall of 25% in Q1, stimulus and renewed hope led to a significant rebound in the subsequent three months. Economic data began to rally as lockdowns eased. Activity remains reduced by 20-40%, and in a protracted recovery, retaining Q2 gains may be difficult.

30. The long-term route to withdrawing support is unclear. Fiscal deficits will need addressing through taxation, austerity, or inflation, but only with COVID-19 contained. Further stimulus measures could yet be needed. Inflation is likely to remain low in the short term.

31. Volatility and uncertainty remain high and a second wave or continuance of cases may see reinstated controls. Cases may have peaked in some areas but others are still rising (US, Latin America, India, Africa). Healthcare firms and researchers are working on treatments for COVID-19, with optimism for a 2021 vaccine.

32. Unemployment rose sharply in Q2. Some countries used temporary furlough schemes, but rates will likely rise as these end, affecting wage growth, buyer confidence & spending, and raising cautionary saving.

33. High yield and investment grade bond spreads fell, while government bond yields have been stable. The amount of negative yielding debt increased to $13 trillion in June.

34. Equity markets saw a 20% rebound in Q2. Developed markets modestly outperformed emerging markets. The US (+21%) was the strongest developed market and the UK (+10%) the weakest. South Africa (+28%) was the strongest EM performer while Mexico's (-12%) rising infection rate saw them perform the worst.

35. Companies with *quality* characteristics and strong balance sheets outperformed, whilst *value* and high-yielding stocks are trading at a discount to the market. The Technology sector outperformed, whilst others such as Consumer Discretionary and Materials rebounded from being adversely impacted during Q1. Financials and Energy have been the worst performing sectors in 2020 so far.

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PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 30 June 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 29 September 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 11 September 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q2 2020.

2. The Committee is recommended to note this report.

Background

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

4. The Fund invests primarily in listed equities of companies from overseas developed countries which are included in the 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 £3.0bn.

Performance

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

	Since inception 26/07/18 **% p.a.**	**Year** **%**	**Quarter** **%**
Overall Fund	5.72	5.10	19.75
Benchmark	4.52	3.51	19.37
Actual Variance[1]	+1.20	+1.59	+0.39
Target Variance[2]	+1.00	+1.00	+0.25
Performance Relative to Target[3]	+0.20	+0.59	+0.14

[1] Fund performance minus Benchmark performance
[2] Based on the Fund's Performance Objective
[3] 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.
5. Beneficial impact of withholding tax rates was 0.46% over FY2019.

Comments on Performance

12. Overall Fund performance was above its target over Q2 2020 and is above Benchmark since inception.

13. The performance of the individual regional sleeves of the Fund over Q2 was as follows:
    - US: Fund 21.04% vs Benchmark of 20.81% (+0.23)
    - Japan: Fund 12.62% vs Benchmark of 12.22% (+0.40)
    - Europe ex UK: Fund 18.83% vs Benchmark of 18.44% (+0.39)
    - Asia Pacific ex Japan: Fund 22.79% vs Benchmark of 21.51% (+1.28)

14. The key theme affecting the Fund during the quarter has been the sharp rebound in equity markets due to extensive global monetary and fiscal stimulus and tentative signs of a loosening of COVID-19 restrictions, particularly in Asia and Europe.

15. The Fund has continued to modestly outperform due to the following:

    - Bias towards quality companies with relatively strong balance sheets and resilient business models which have continued to outperform despite the sharp recovery in equity markets, partly offset by an underweight in smaller companies which have rebounded;

    - An overweight position in Technology which has continued to benefit from COVID-19 lockdowns;

    - An underweight position in Utilities which have lagged the broader market recovery;

    - Strong stock selection in Financials, Technology and Consumer broadly offset by weaker selection in Industrials and Healthcare.

16. The Fund has a relatively low risk profile which is driven by low correlations between the four constituent portfolios, whose individual risk profiles are generally in the middle of the targeted range for tracking error of 1 – 3%. It is unlikely that there will be material changes to portfolio positioning in the short term and the Fund will continue to focus on long term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility.

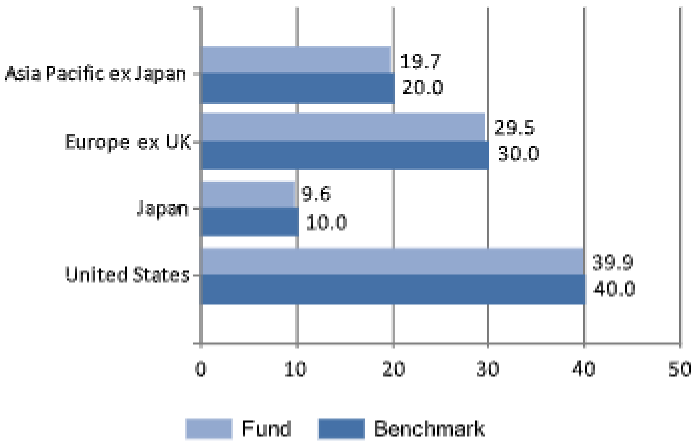
17. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Vanguard US Mid Cap ETF (o/w)	2.73	0.00	0.13	Rebound in smaller companies following underperformance in the previous quarter.
NVIDIA Corporation (o/w)	0.80	0.36	0.08	Exposure to hyperscale data centre servers, machine learning applications and gaming have lent resilience.
Logitech International (o/w)	0.41	0.04	0.07	The company has experienced an increase in demand due to COVID-19 induced lockdowns and increased working from home.
Xinyi Solar(o/w)	0.25	0.03	0.07	Chinese subsidies higher than expected, leading to increased demand for solar products and positive trading update.
Samsung SDI (o/w)	0.39	0.13	0.06	Continued to benefit from expectations of significant medium-term growth following the announcement of the EU Green Deal.
PayPal (u/w)	0.00	0.32	-0.11	A dominant position within global online payments proving to be a haven amidst a global pandemic.
Adyen (u/w)	0.00	0.18	-0.06	Payments company benefiting from increased online transactions during COVID-19 restrictions.
Afterpay (u/w)	0.00	0.07	-0.05	Australian fintech benefited from the acquisition of a 5% stake by Tencent.
Ageas (o/w)	0.16	0.03	-0.05	Wider under-performance of insurance sector due to concerns that the industry will be inundated with claims in current environment.
Oji Holdings (o/w/)	0.15	0.01	-0.05	Paper and packaging company has experienced a COVID-19 induced reduction in demand for paper for printing.

Source: Northern Trust & Border to Coast

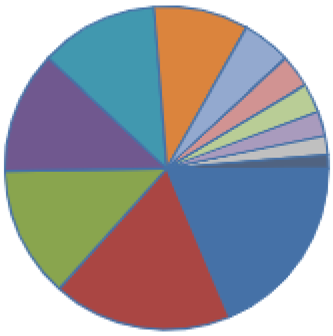
Portfolio Structure

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



Source: Northern Trust

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:

- Common Stock Funds (o/w) – exposure to smaller companies via collective vehicles, specifically in US, Europe and Japan.

- Technology (o/w) – long-term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous vehicles, new generation memory chips, the continued transition towards cloud-based

- Basic Materials (o/w) – valuations significantly below the long-term average and strong free cash flow generation, enabling increased shareholder distributions.

- Financials (u/w) – significant underweight in Banks due to concerns over profitability in a persistent low interest rate environment, non-performing loans, legacy litigation issues and the risk of increased regulation. This is partly offset by overweight positions in Insurers and Wealth Managers as they are expected to benefit from long-term increase in investment wealth, although shorter term pressures from the sharp fall in financial markets.

- Industrials (u/w) – short-term disruption from current macroeconomic uncertainty and longer-term concerns regarding capital expenditure with some attractive opportunities in high value-add sectors such as automation.

- Utilities (u/w) – considered to be a relatively defensive sector in current market conditions; however, pressure from increased capital investment, changes in government policy, increased regulatory risk and technological advances in renewable power generation are having an adverse impact on “traditional” power generation companies. In addition, there is long-standing government influence, particularly in Europe, where the sector is considered to be of strategic importance and where interests are not always aligned with shareholders.

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

- KDDI (£5.5m) – new telecoms holding to replace NT&T, due to a slightly better outlook and valuation.

- Roche (£4.7m) – increasing overweight position on positive news relating to cancer drug pipeline, reducing risk of patent expiry on legacy drugs.
- AT&T (-£9.6m) – full disposal due to leveraged balance sheet and the pressure to invest in 5G Infrastructure and acquired media businesses.
- NT&T (-£4.9m) – Switch in to KDDI which has a better outlook and more attractive valuation.

Risk Profile

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

23. Both the ex-post and ex-ante tracking error as of quarter end are below the 1% - 3% target range, standing at 0.65% and 0.98% respectively.

Market Background

24. After the global equity market fall of 25% in Q1, stimulus and renewed hope led to a significant rebound in the subsequent three months. Economic data began to rally as lockdowns eased. Activity remains reduced by 20-40%, and in a protracted recovery, retaining Q2 gains may be difficult.

25. The long-term route to withdrawing support is unclear. Fiscal deficits will need addressing through taxation, austerity, or inflation, but only with COVID-19 contained. Further stimulus measures could yet be needed. Inflation is likely to remain low in the short term.

26. Volatility and uncertainty remain high and a second wave or continuance of cases may see reinstated controls. Cases may have peaked in some areas but others are still rising (US, Latin America, India, Africa). Healthcare firms and researchers are working on treatments for COVID-19, with optimism for a 2021 vaccine.

27. Unemployment rose sharply in Q2. Some countries used temporary furlough schemes, but rates will likely rise as these end, affecting wage growth, buyer confidence & spending, and raising cautionary saving.

28. High yield and investment grade bond spreads fell, while government bond yields have been stable. The amount of negative yielding debt increased to $13 trillion in June.

29. Equity markets saw a 20% rebound in Q2. Developed markets modestly outperformed emerging markets. The US (+21%) was the strongest developed market and the UK (+10%) the weakest. South Africa (+28%) was the strongest EM performer while Mexico's (-12%) rising infection rate saw them perform the worst.

30. Companies with *quality* characteristics and strong balance sheets outperformed, whilst *value* and high-yielding stocks are trading at a discount to the market. The Technology sector outperformed, whilst others such as Consumer Discretionary and Materials rebounded from being adversely impacted during Q1. Financials and Energy have been the worst performing sectors in 2020 so far.

Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 30 June 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 29 September 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 11 September 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q2 2020.

2. The Committee is recommended to note this report.

Background

3. Border to Coast launched this internally managed Fund on 22nd 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 £712m.

Performance

9. Performance to the quarter end is shown below:

	Since inception 22/10/18 **% pa**	**Year** **%**	**Quarter** **%**
Emerging Markets Equity Fund	5.08	-2.89	16.53
S&P Emerging BMI	7.11	-1.18	19.66
Actual Variance[1]	-2.03	-1.71	-3.13
Target Variance[2]	+1.00	+1.00	+0.25
Performance Relative to Target[3]	-3.03	-2.71	-3.38

[1] Fund performance minus Benchmark performance
[2] Based on the Fund's Performance Objective
[3] 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.
5. Beneficial impact of withholding tax rates was 0.11% over FY2019.

Comments on Performance

10. Performance was below the Benchmark for Q2 2020 and is below the benchmark and target since inception.

11. The key theme affecting the Fund during the quarter has been the sharp recovery in markets following the COVID-19 induced correction in the previous quarter. Countries that were hit hardest last quarter (Brazil, India and South Africa) have bounced back the most, whilst China, the strongest relative performer last quarter, has lagged.

12. The Fund has underperformed significantly during the quarter due to the following factors:

    - Bias towards quality companies with relatively strong balance sheets and resilient business models, which have underperformed in a rebounding market.

    - Underweight to smaller companies, which have modestly outperformed.

    - Overweight to China, which has lagged the recovery, as it had been relatively resilient in the previous quarter.

    - Overweight positions in Consumer Staples and Communication Services, as these more defensive companies have underperformed.

    - Weak stock selection in China, predominantly in the Consumer sector where highly valued e-commerce companies have soared, driven by significant increases in revenue growth – but with little sign of sustainable profitability.

13. The Fund has a higher risk profile compared to the other internal sub-funds - but is still relatively low risk for an active Emerging Markets equity portfolio.

14. The Fund will continue to focus on long-term fundamentals – with a bias towards quality companies with strong balance sheets - and it is unlikely that there will be any material change to the Fund's construction in the short term.

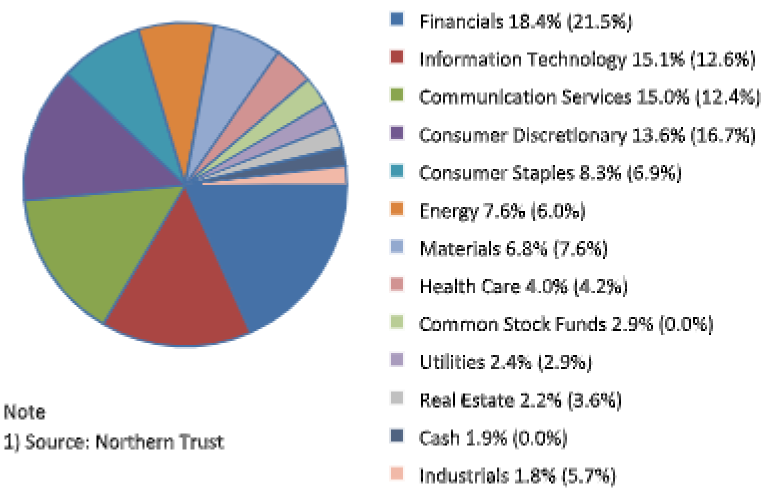
15. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
MediaTek (o/w)	1.78	0.47	0.58	Experiencing strong demand for 5G chips as smartphone production recovers.
Reliance Industries (o/w)	2.11	1.15	0.28	Continued growth and improvement in profitability for telecom subsidiary Jio.
Magnit (o/w)	0.99	0.00	0.21	Benefited from increased demand as a result of COVID-19 disruption; shares were supported by a high dividend yield.
Hero MotoCorp (o/w)	0.67	0.07	0.16	A strong presence in Emerging Markets, rebounded following underperformance in the previous quarter.
Delta Electronics (o/w)	1.08	0.18	0.15	Benefiting from expected growth in electric vehicles with significant increase in earnings expectations.
Meituan Dianping (u/w)	0.00	1.28	-0.46	Provider of vouchers and food delivery services; continued to outperform despite an exceptionally high valuation.
China Mobile (o/w)	1.72	0.61	-0.31	A defensive company which underperformed in the market rebound.
Pinduoduo (u/w)	0.00	0.50	-0.26	Benefited from increased revenue driven by discounting, but it is unclear how it will become profitable with this strategy.
China Overseas Land & Investment (o/w)	1.34	0.18	-0.22	Concerns over impact of COVID-19 disruption and the effect of long-term changes to working practices and retail trends
Ambev (o/w)	1.39	0.46	-0.21	Increase in non-performing loans and potential for government influence on lending practices.

Source: Northern Trust & Border to Coast

Portfolio Structure

16. 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

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 (o/w) – provides selective country exposure with weighting expected to reduce as the Fund switches to direct investments in South Africa.

- Communications Services (o/w) – exposure to a relatively defensive sector with positive long-term growth dynamics through the transition towards 5G technology; growth in “the internet of things”; a move towards home working; potential industry consolidation/co-operation.

- Information Technology (o/w) – long term structural growth drivers, including "the internet of things", Artificial Intelligence, Electric/Autonomous Vehicles, and new-generation memory chips – although significant short-term outperformance may result in reduction of overweight.

- Industrials (u/w) – exposure is skewed towards mid- and small-cap companies and it is difficult to find good quality stocks in this sector.

- Consumer Discretionary (u/w) – concerns over impact of COVID-19 on consumer spending, although increased online spending will be a mitigant.

- Financials (u/w) – large underweight driven by an underweight in Banks, due to unattractive outlook, as low interest rate expectations and rising non-performing loans could have an adverse impact on profitability, although valuations look more attractive.

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

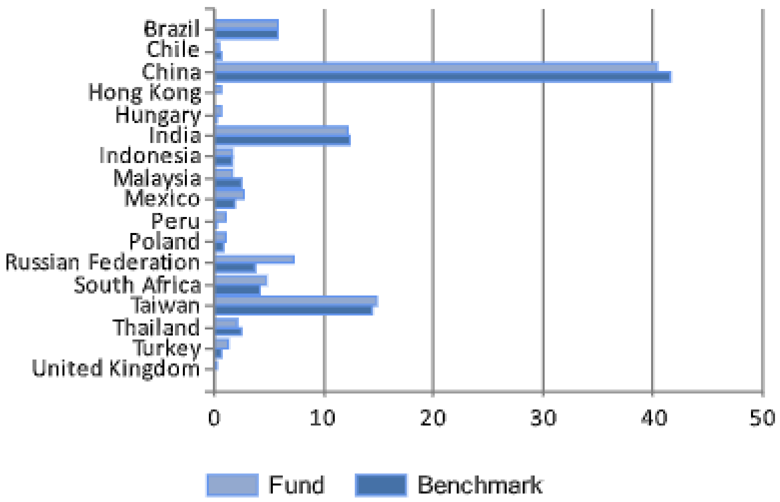
- Naspers (£20.7m) – switching from the South African ETF into the largest constituent of the South African index following confirmation of tax treatment of direct investments – provides exposure to a range of technology stocks, the most notable being Tencent, at a significant discount to their current market value.

- iShares South Africa ETF (-£11.0m) – switched into Naspers.

- Tencent (-£10.9m) – switched into Naspers to broadly maintain exposure to company but at a discount to current market value.

- Suzano (-£3.8m) – Brazil's leading pulp producer, but has poor fundamentals and a weak balance sheet.

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



Risk Profile

20. 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 3.29%, slightly outside the risk appetite of 1% - 3%.

- The ex-ante (forward looking) tracking error as of quarter end was 2.78%.

Market Background

21. After the global equity market fall of 25% in Q1, stimulus and renewed hope led to a significant rebound in the subsequent three months. Economic data began to rally as lockdowns eased. Activity remains reduced by 20-40%, and in a protracted recovery, retaining Q2 gains may be difficult.

22. The long-term route to withdrawing support is unclear. Fiscal deficits will need addressing through taxation, austerity, or inflation, but only with COVID-19 contained. Further stimulus measures could yet be needed. Inflation is likely to remain low in the short term.

23. Volatility and uncertainty remain high and a second wave or continuance of cases may see reinstated controls. Cases may have peaked in some areas but others are still rising (US, Latin America, India, Africa). Healthcare firms and researchers are working on treatments for COVID-19, with optimism for a 2021 vaccine.

24. Unemployment rose sharply in Q2. Some countries used temporary furlough schemes, but rates will likely rise as these end, affecting wage growth, buyer confidence & spending, and raising cautionary saving.

25. High yield and investment grade bond spreads fell, while government bond yields have been stable. The amount of negative yielding debt increased to $13 trillion in June.

26. Equity markets saw a 20% rebound in Q2. Developed markets modestly outperformed emerging markets. The US (+21%) was the strongest developed market and the UK (+10%) the weakest. South Africa (+28%) was the strongest EM performer while Mexico's (-12%) rising infection rate saw them perform the worst.

27. Companies with *quality* characteristics and strong balance sheets outperformed, whilst *value* and high-yielding stocks are trading at a discount to the market. The Technology sector outperformed, whilst others such as Consumer Discretionary and Materials rebounded from being adversely impacted during Q1. Financials and Energy have been the worst performing sectors in 2020 so far.

PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 30 June 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 29 September 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 11 September 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q2 2020.

2. The Committee is recommended to note this report.

Background

3. Border to Coast launched this externally managed Fund on 17th December 2018.

4. The Fund invests primarily in listed equities of UK companies 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 £1.1bn.

Performance

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

	Since inception 17/12/18 % p.a.	Year %	Quarter %
Overall Fund	-1.62	-13.98	14.19
Benchmark	-2.05	-12.99	10.17
Actual Variance[1]	+0.43	-0.99	4.01
Target Variance[2]	+2.00	+2.00	+0.50
Performance Relative to Target[3]	-1.57	-2.99	+3.51

Notes
1. Source: Northern Trust
2. Values do not always sum due to rounding
3. Performance is net of ACS charges such as depository and audit fees. External investment management fees are also included but Border to Coast costs are not reflected.
4. Past performance is not an indication of future performance and the value of investments can fall as well as rise.

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

Comments on Performance

12. The Fund's performance bounced back over Q2. The Fund remains below benchmark over the past year but is back ahead of benchmark since inception.

13. Market performance in Q2 2020 was strong, primarily driven by a normalisation of investor risk sentiment, following extreme market movements in March. The market rally has not been consistent on a sector basis, though, with sectors hit especially hard by COVID-19 - such as physical retail, hotels and airlines - lagging behind the recovery.

14. Against this backdrop, Baillie Gifford and Janus Henderson produced significant positive excess returns during the quarter as smaller companies and those with higher growth expectations outperformed much of the market. This helped the Fund to outperform over the quarter, recouping more than half of relative losses experienced during the market downturn.

15. Following Baillie Gifford's strong outperformance, we rebalanced the Fund in June, investing proceeds in Janus Henderson and UBS to ensure the risk exposure across the Fund remained balanced.

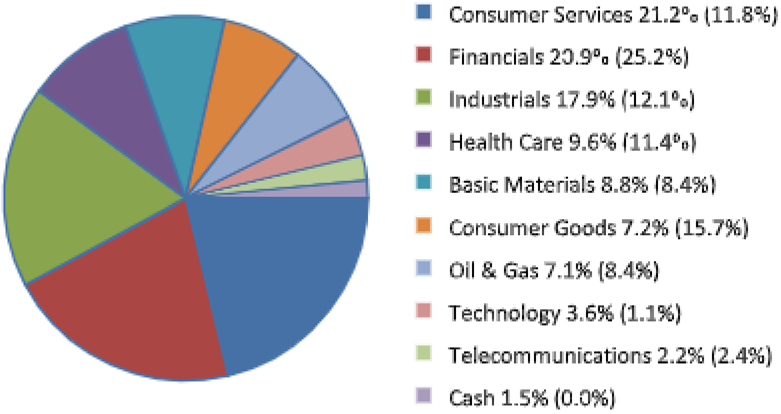
16. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Ocado (o/w)	2.62	0.31	0.53	Supermarket shares have broadly maintained value as shopping delivery volumes increased due to COVID-19 restrictions.
Royal Dutch Shell A (u/w)	0.35	3.33	0.51	Underperformed the market halting share buybacks and reducing spending by 20% after the breakdown of OPEC supply agreement.
Genus (o/w)	1.12	0.12	0.27	An animal genetics company, which maintained market value over the quarter after announcing revenue growth of 13% due.
Team17 (o/w)	0.42	0.00	0.21	Share price rallied through successful launch of two new games, improving outlook to produce successful franchises in the future.
Abcam (o/w)	1.84	0.00	0.21	Produces and provides a platform for the sale of antibodies. Stock lost value, stabilised by improvement in long term prospects.
Carnival (o/w)	0.62	0.09	-1.13	Global cruise operator. Shares routed during March as the Firm's "Diamond Princess" ship had an outbreak of COVID-19.
AstraZeneca (u/w)	1.37	5.39	-0.89	The firm protected investor value during the quarter as demand for chronic medication remained stable.
Reckitt Benckiser (u/w)	0.00	2.20	-0.56	A producer of health, hygiene and home products. The firm was isolated from COVID-19 impacts on product demand.
SIG (o/w)	0.16	0.01	-0.53	Supplies insulation, roofing and interiors. The CEO and CFO exited in Q1, and the firm announced a further profit warning.
National Grid (u/w)	0.00	1.87	-0.47	Protected value throughout the quarter as revenues remained stable – demand for utilities is largely immune to COVID-19.

Source: Northern Trust & Border to Coast

Portfolio Structure

17. 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

18. Notes:

- Consumer Services (o/w) – overweight position capturing the theme of disruptive, capital-lite businesses attempting to reshape traditional industries.

- Industrials (o/w) – driven by stock selection in high-tech manufacturing, corporate and consumer services with the ability to capitalise on growing industries.

- Technology (o/w) – driven by an overweight position in software and services – targeting innovative, high-growth businesses that are not well represented in the UK benchmark.

- Consumer Goods (u/w) – counterpart to the Consumer Services overweight, large underweight in tobacco given potential ESG concerns and expensive valuations.

- Financials (u/w) – underweight as a result of the sector being dominated by large banks with significant UK economic exposure, for which we are materially underweight. 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 warrants an underweight position.

Risk Profile

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

20. The ex-post tracking error was 6.10% at quarter end, outside of the 2-5% range, while the ex-ante sat towards the top end of the range, at 4.72%.

21. Ex-post is tracked inception to-date. Sine the fund launched in December 2018 we have seen heightened volatility over this short time period due to Brexit in 2019 and Covid-19 in 2020.

Market Background

22. After the global equity market fall of 25% in Q1, stimulus and renewed hope led to a significant rebound in the subsequent three months. Economic data began to rally as lockdowns eased. Activity remains reduced by 20-40%, and in a protracted recovery, retaining Q2 gains may be difficult.

23. The long-term route to withdrawing support is unclear. Fiscal deficits will need addressing through taxation, austerity, or inflation, but only with COVID-19 contained. Further stimulus measures could yet be needed. Inflation is likely to remain low in the short term.

24. Volatility and uncertainty remain high and a second wave or continuance of cases may see reinstated controls. Cases may have peaked in some areas but others are still rising (US, Latin America, India, Africa). Healthcare firms and researchers are working on treatments for COVID-19, with optimism for a 2021 vaccine.

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28. Companies with *quality* characteristics and strong balance sheets outperformed, whilst *value* and high-yielding stocks are trading at a discount to the market. The Technology sector outperformed, whilst others such as Consumer Discretionary and Materials rebounded from being adversely impacted during Q1. Financials and Energy have been the worst performing sectors in 2020 so far.

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PENSIONS PARTNERSHIP

BCPP Joint Committee

Date of Meeting: **1 October 2020**

Report Title: **Annual review of Alternatives (for information and discussion)**

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

1 Executive Summary

1.1 The first annual review of the Alternatives structure has been performed in line with the Border to Coast Product Development and Review Policy.

1.2 The review has covered the appropriateness of the structure; the suitability of the investment process (including incorporation of Responsible Investment); relationships with external service providers; the level of commitments and capital deployment in line with risk parameters; an assessment of the benefits of pooling; future product developments; and whether customer requirements are being met.

1.3 The key points to note are:

- Commitments from Partner Funds higher than expected (£3bn v. £2bn).
- Capital has been deployed in line with expected timeframes (56% of commitments, of which 13% has been called) and within risk parameters.
- Benefits include cost savings versus industry average (we are developing Partner Fund specific MI), development of industry partnerships, and improving access to investments for Partner Funds.
- The costs of the structure are broadly in line with original expectations.
- Partner Funds have been very supportive both during the design stage and the first year of operation. Customer feedback has been taken into consideration and issues have been dealt with in a timely manner.
- There are a number of future product developments that are currently in the planning stage and will be progressed further where there is sufficient demand.
- The structure will be reviewed to determine whether additional flexibility is required from a tax perspective, particularly with regards to US investments.

2 Recommendations

2.1 That the report is noted.

3 Alternatives structure

Structure

3.1 A brief overview of the structure is as follows:

- There are ten corporate entities wholly owned by Border to Coast[1]. These are the General Partner (GP) for each Scottish Limited Partnership (SLP), and Border to Coast is appointed as the operator.
- A separate structure for each Partner Fund and each SLP is a separate limited partner in any underlying investment i.e. no co-mingling.
- Investments are made on a pro-rata basis in relation in relation to each Partner Fund's commitment to the relevant offering.

3.2 The original rationale for this structure was as follows:

- It enabled the benefit of economies of scale whilst maintaining segregation of assets across Partner Funds.
- It enabled the potential transfer of legacy assets without valuation, performance dilution, or cross-contamination issues across Partner Funds.
- It provided the flexibility for Partner Funds to make annual commitments without a proliferation of legal structures increasing costs and complexity. The number of separate SLPs would be capped at 11 (one for each Partner Fund) as opposed to one per asset class per annum.

3.3 The structure does result in an increase in administration requirements and associated costs but reduces complexity. As investments are not co-mingled individual Partner Fund cash flows do not need to be tracked in the same way as would be the case if a single commitment was made by Border to Coast, reducing the risk of error.

Process

3.4 The Alternatives team utilises a detailed and robust due diligence process in selecting suitable investments. This focuses on the following key areas:

- Investment – including ESG and responsible investment;
- Operational – including operational processes;
- Compliance – including financial crime risks, PEPs and sanctions screening;
- Legal; and
- Tax.

3.5 ESG factors and Responsible Investment have been incorporated into the process. This includes a specific ESG questionnaire which is circulated to prospective managers with additional review by the RI team. There will be enhancements in respect of ESG reporting and the team is working with Albourne to further develop ESG due diligence. It should be noted that Private Markets managers tend to be behind Public Markets managers in their integration of ESG and RI.

[1] At the present time Lincolnshire has not made a commitment to Alternatives

3.6 There is a robust governance process with peer review across the Alternatives team and additionally a Compliance review. There is also a review by the Alternatives Investment Strategy Committee (AISC), which is chaired by the CIO, and final approval by either the CIO or CEO depending on the size of the commitment. Potential investments that are considered to have higher non-investment risks are escalated to the CEO who may refer them to the Board's Private Markets Committee for review.

Service providers

3.7 The Alternatives structure utilises four key external service providers:

- Administration services – provided by Northern Trust since launch in May 2019 as part of the wider Third Party Administration contract. Services include cash flow processing, accounting and performance reporting.
- Due Diligence support and Administration oversight – provided by Albourne since March 2020 and includes both IDD and ODD support as well as facilitating oversight of Northern Trust through Investment Book of Record reconciliation.
- Legal services – provided by Cleveland since April 2019 as part of an 18 month contract. Services include reviewing legal documentation and negotiating side letters. It should be noted that an OJEU procurement for a longer term contract for Legal services has recently been launched.
- Tax services – provided by Deloitte since April 2018 as part of the wider Tax Services contract. Services include reviewing legal documentation to ensure tax issues are understood and negotiating any tax points in the side letters.

3.8 The relationships with the service providers have been effective since launch and has enabled Border to Coast to leverage its internal resources. There are regular service reviews to ensure that any issues are resolved and to enable best practice to be shared. It should be noted that the operating model will evolve as volumes of cash flow processing increase.

Capital commitments and deployment

3.9 Border to Coast currently has £3bn of commitments from Partner Funds in the Alternatives structure, of which c. 56% has been deployed and c. 13% of capital deployed has been called:

	Launch date	Commitment (£m)	Deployment[1] (£m)	Capital called (£m)
Private Equity 1A	May-19	500	498.7	60.0
Infrastructure 1A	Jul-19	675	666.0	127.9
Private Credit 1A/B	Oct-19	581	292.6	27.6
Private Equity 1B	Apr-20	485	153.5	-
Infrastructure 1B	Apr-20	760	81.8	0.9
Total		**3,001**	**1,692.6**	**217.2**

As at 31 July 2020

[1] Including investments that have been approved and are awaiting the completion of subscription documents and acceptance from the investment manager

3.10 Capital Deployment by Border to Coast is on track. The investment periods for Private Equity 1A and Infrastructure 1A have ended and Partner Funds have been released from their residual commitments. The investment periods for the other portfolios are scheduled to end on 31 March 2021.

3.11 The level of capital called by external managers is modestly lower than expected due to greater commitments being made toward the end of the investment period for Series 1A; making first close commitments before investment activity has commenced; an increasing trend of managers fundraising for subsequent funds before completing the deployment of capital in the predecessor fund; and the impact of Covid-19 on transaction activity.

Portfolio construction

3.12 Each portfolio has sector and geographic parameters which were agreed with Partner Funds in the initial design phase. A workshop was held with Partner Funds prior to the launch of Series 1B to ensure that these parameters remained suitable. The parameters are assessed over the three years of a Series (1A, 1B and 1C) rather than in individual years to avoid overdiversification.

3.13 Risk parameters and current exposures for each sleeve are shown in **Appendix 1**.

3.14 There are a number of investment themes in each portfolio, which are summarised in **Appendix 2**, where the team believe there will be attractive investment opportunities. The portfolios will be tilted towards these themes but no one theme will dominate portfolio construction. Commitments made to date are summarised in **Appendix 3**.

Assessment of the benefits of pooling

3.15 The key aims of the Alternatives structure were to:

- Facilitate Partner Funds asset allocation to Alternatives;
- Generate attractive net of fees, risk-adjusted returns through robust due diligence and economies of scale; and
- Provide access to managers, strategies and investments that Partner Funds may not be able to access individually.

3.16 The benefits achieved since launch to date are:

- Cost savings through economies of scale, first close discounts and a change in mix from higher cost (e.g. fund of funds) to lower cost (e.g. co-investment funds) investments. To date, this has resulted in estimated annualised cost savings (relative to industry standard fees and before Border to Coast costs), of **c. £5m p.a.**, equivalent to **33bps**[2]. It is recognised that some Partner Funds would have historically had lower fees than the industry standard. It is not possible to determine the cost savings for each Partner Fund at the current time due to lack of information on historic costs.
- Access to niche strategies (e.g. Blackstone Life Sciences) and capacity constrained managers (e.g. GPV) through early engagement and leveraging the scale and long-term nature of the Border to Coast programme.

[2] For reference, the original Government submission suggested cost savings from Alternatives of 25 – 50bps p.a. calculated on the same basis (i.e. not including Border to Coast costs).

3.17 It is expected that additional cost savings can be generated in the future through direct co-investments (which are typically lower or zero fees). Although no co-investments have been made to date a number of Infrastructure co-investments are currently being reviewed.

3.18 Border to Coast costs are expected to be slightly higher in absolute terms than the original business case (£4.1m v. £3.9m in 2020 – 21), but lower as a percentage of commitments (0.14% v. 0.19%). If the estimated cost savings highlighted in **3.16** above are taken into account, the Alternatives structure has broadly reached break-even.

3.19 Although absolute costs in future years are likely to be marginally higher than in the original business case, the higher than expected level of commitments should result in the overall costs of the structure being broadly similar at 0.1% of commitments p.a. once £5bn of commitments has been reached.

Future product developments

3.20 There are a number of new product developments that are currently in the early stages of development.

- Listed Alternatives – investments held within listed structures and expected to operate in a similar manner to the ACS equity sub-funds. Indicative customer demand is considered to be sufficient to consider launch with timing of launch to be confirmed. Customer appetite for this product is driven either by existing allocations to listed or a desire to achieve faster capital deployment than can be achieved through private market investments.
- Legacy Alternatives – a high level business case has been prepared and a workshop has been held with Partner Funds. Two funds (Lincolnshire and Surrey) have expressed an interest in the formal transfer of legacy investments into their SLP. Some other Partner Funds have expressed an interest in an advisory service to monitor legacy investments without a transfer.
- Annual subscription programmes for existing asset classes with the investment period for the next subscription due to commence in April 2021.
- Asset allocation – Partner Funds would make a commitment to Alternatives, with a defined risk and return objective, and the asset allocation decision would be delegated to Border to Coast. Lincolnshire have expressed an interest in this offering. Other funds may also be interested but may wait until they see how it operates in practice before committing.
- Cash flow management – this includes cash flow modelling to assist Partner Funds with their asset allocation; and liquidity management by processing cash flows to reduce the administrative burden on Partner Funds, thereby making the process more efficient for Border to Coast and Northern Trust. This project has wide Partner Fund initial support.

These projects will be progressed further over the next year.

Customer requirements

3.21 Feedback has been received from Partner Funds since launch, with the majority of the comments being supportive. The key issues that have been raised are:

- *Individual investment commitment sizes are lower than expected.* The programme was structured to provide each Partner Fund with a diversified portfolio whilst capturing the benefits of scale and maintaining a simple operating model. Partner Funds that already have a mature Alternatives programme do not necessarily require this level of diversification, but other Partner Funds do. Nevertheless, the feedback has been taken on board and average investment sizes are likely to increase from c. £65m in Series 1A to c. £100m+ in Series 1B and beyond. As the Border to Coast programme matures there may be less need for diversification within each Series and individual commitment levels may increase further.

- *Pace of deployment is slower than expected.* This is a function of the timescales for fund closings with some extensions to fundraising periods which are not necessarily within Border to Coast's control. Deployment of capital for the rest of Series 1 is expected to be more evenly spread.

- *Border to Coast does not necessarily provide the level of exposure to certain strategies or sectors that some Partner Funds would like, resulting in allocations outside of Border to Coast*. It is difficult to satisfy all Partner Fund requirements whilst trying to maintain a relatively simple and low cost operating model. However, all Partner Funds were involved in the design of the structure and various offerings, and these are revisited on an annual basis prior to the launch of the next Series or sub-Series. There may be a possibility to consider more bespoke portfolios for individual Partner Funds, but this could increase the cost and complexity of the structure whilst losing some of the benefits of pooling.

- *Call and distribution process is increasing workloads due to volume of relatively small payments.* The initial operating model involves a straight pass through of call instructions from the investment manager to the Partner Funds. During the design phase of the structure it was not possible to achieve consensus on a more efficient process. This is now being considered as part of the cash flow management product development outlined in **3.20** above.

- *Client reporting documents were difficult to understand.* We have worked with Northern Trust to provide greater clarity in reports and have also held a workshop with Partner Funds to review the reports. In addition, we hold quarterly workshops with Partner Funds to provide a regular update on investment activity and market conditions.

- *Initial issues for some Partner Funds in making call payments.* There have been relatively few issues but where they have occurred, we have worked with the Partner Fund in question and Northern Trust to understand the issue, attempt to resolve it, and learn any lessons for improvements. We have also communicated with the underlying investment managers to ensure that they are aware of any potential delays in payment so that it does not have a reputational impact.

4 Conclusion

4.1 The annual review of the Alternatives structure has been completed. The key points to highlight are:

- There is a robust due diligence and governance process in place ensuring appropriate investment decision making.

- Border to Coast has effective working relationships with all of its external service providers and no major issues have arisen since launch.

- Capital commitments from Partner Funds have been significantly higher than originally expected and have been deployed in line with expected timeframes and risk parameters.
- The structure has yielded material benefits since launch including significant cost savings versus market benchmarks (with further work ongoing to assess individual Partner Fund savings) and improved access to investments for Partner Funds.
- There are a number of potential product developments that are currently being considered in order to develop the Alternatives structure further and in response to Partner Funds' requirements.
- Feedback from Partner Funds has generally been positive, and issues have been dealt with in a timely manner.

5 Author

Mark Lyon, Head of Internal Management

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22 September 2020

6 Supporting Documentation

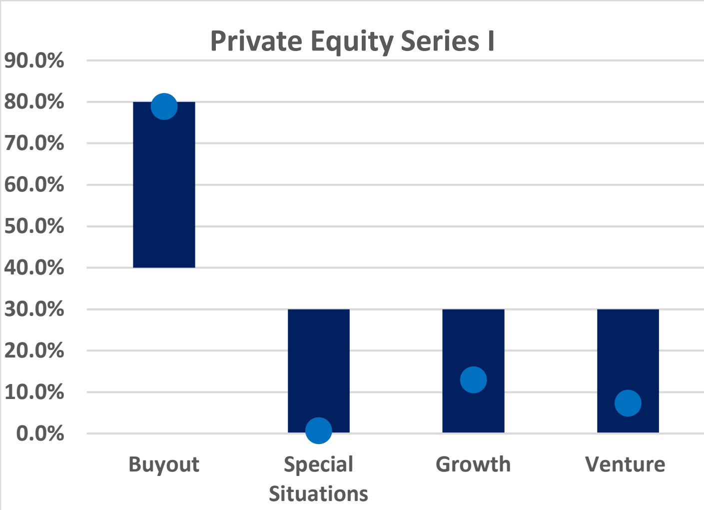
Appendix 1: Risk parameters and current exposure

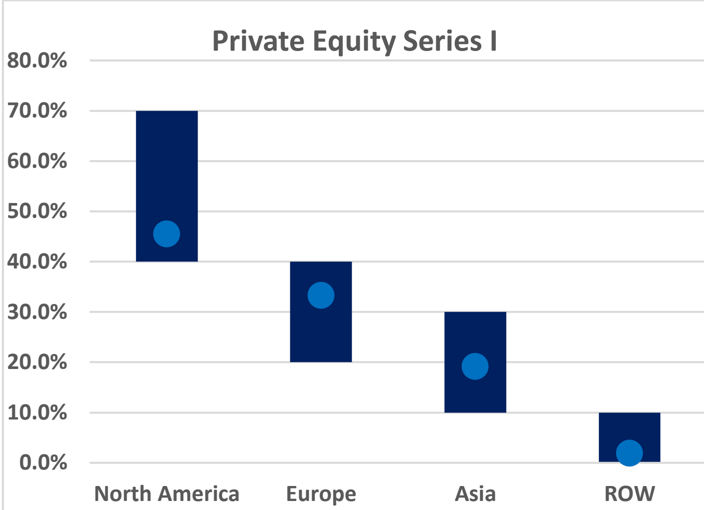
Appendix 2: Key investment themes

Appendix 3: Commitments made to date

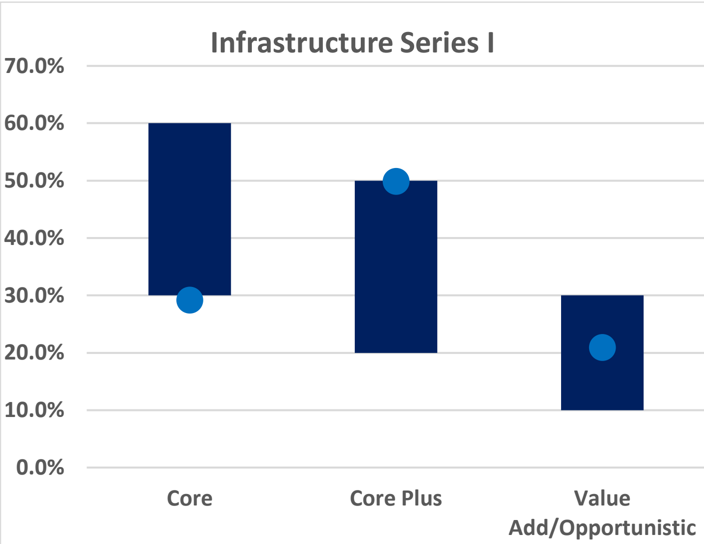
Appendix 1: Risk parameters and current exposure

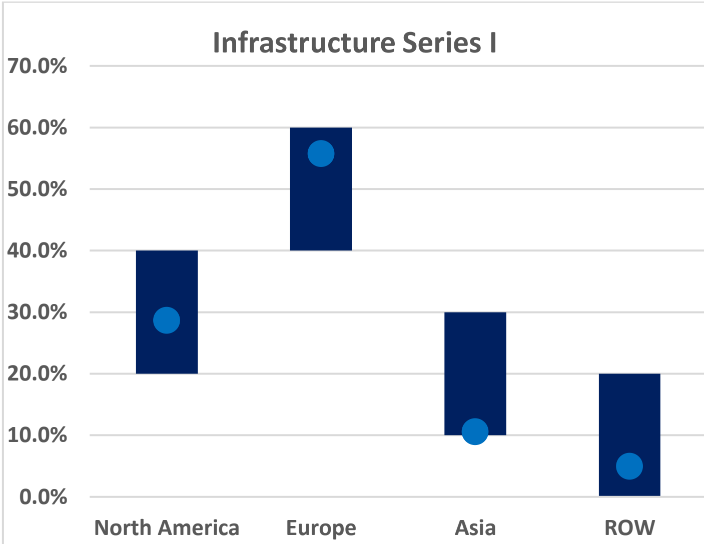
Private Equity



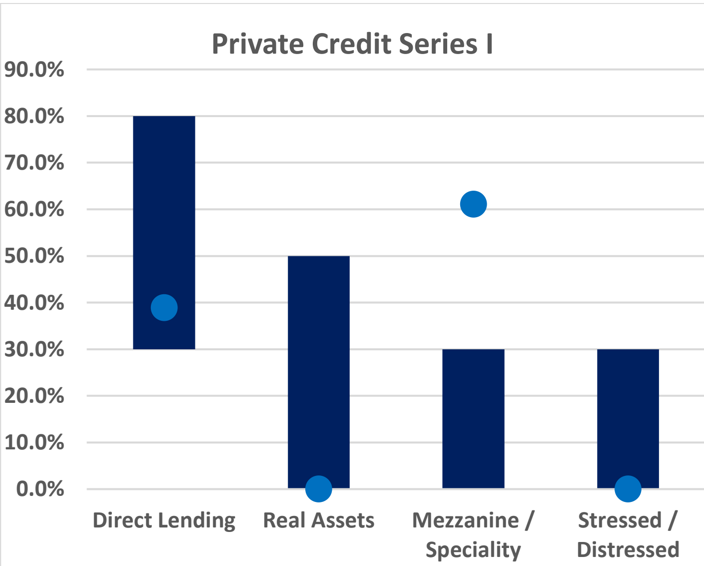


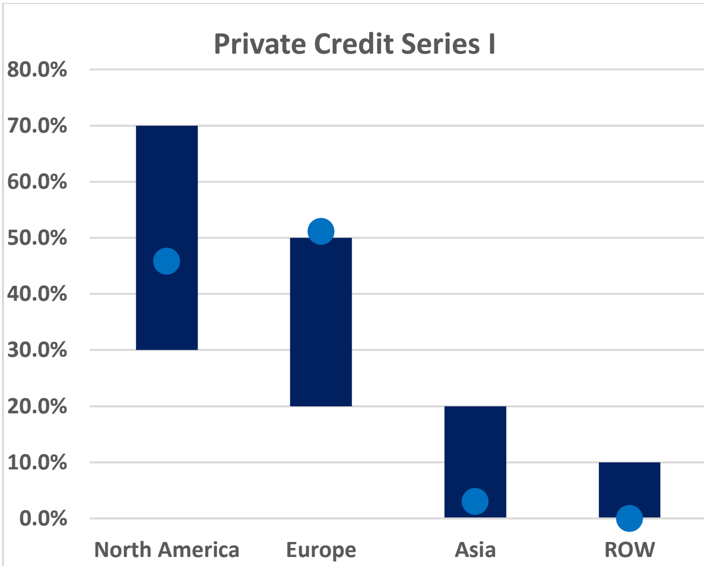
Infrastructure





Private Credit





Appendix 2: Key investment themes

Private Equity

Operational Value Add – deliver enhanced returns through operational improvements and expansion opportunities rather than being reliant on leverage.

Buy and build – adding value through developing a platform and taking advantage of higher multiples for scale businesses.

Mid-market focus – lower valuation multiples and leverage levels, and greater opportunities for operational value add and buy and build strategies.

Asia – expected growth in economic activity, demographics, and wealth creation as well as the development of the private equity market.

Sector Specialists – industry expertise brought by sector specialists can be a real differentiator both in terms of value creation and deal sourcing.

Sector Themes – industries that are expected to benefit from long term structural drivers – e.g. Technology (Artificial Intelligence ("AI"), the Internet of Things ("IoT"), cloud computing etc.) and Healthcare (long term demographic trends and increased healthcare spending).

Infrastructure

Emerging Markets – Demographics and economic activity have generated significant demand for new infrastructure investments. Where a suitable risk premium is available this can present an attractive opportunity compared to developed market infrastructure, but underlying risks need careful consideration.

Operational Value Add – Strategies seeking to deliver enhanced returns through operational value add versus a buy and hold mentality.

Greenfield – Strategies that seek to capture additional investor returns whilst demonstrating strong risk mitigation techniques.

Energy Transition – Tilt towards investments that are enabling or benefiting from the move to a lower carbon economy (e.g. renewable energy, battery technology etc.)

Digital Revolution – Investments which benefit from the growing demand for data and access to digital communication networks e.g. data centres, fibre networks etc.

Private Credit

Senior Debt – a more defensive approach at this point in the credit cycle with a focus on quality credits and depth of underwriting.

Track record – managers with experience of investing through the cycle, and sufficient resources with a robust process for dealing with problem credits including workout experience.

Stressed/Distressed – potential for attractive opportunities given position in economic cycle, extended leverage levels and current structuring solutions, such as lack of covenants and upward adjustments to EBITDA.

Real Assets – focus on quality collateral from real assets with a current preference for infrastructure over real estate due to lower valuation volatility.

Appendix 3: Commitments made to date

Private Equity

Fund	Description	Commitment (LC)
Series 1A		
GreatPoint Ventures II	US early stage venture	$40m
Palatine IV	UK lower mid-market buyout	£40m
Baring Asia VII	Pan-Asia buyout	$60m
NB Co-Investment IV	Global buyout	$100m
Greenspring Opportunities VI	US late stage venture	$60m
StepStone Secondaries IV	Global secondaries	$75m
Hg Saturn II	European upper mid-market (technology)	$90m
Hg Genesis IX	European mid-market (technology)	€35m
Blackstone Life Sciences V	Global growth (healthcare)	$70m
Digital Alpha II	Global growth (technology)	$50m
Series 1B		
KKR Asian IV	Pan-Asia buyout	$94m
Thoma Bravo XIV	Global buyout (technology)	$100m

Infrastructure

Fund	Description	Commitment (LC)
Series 1A		
Brookfield IV	Global core/core plus	$125m
GIP IV	Global core/core plus	$60m
AMP II	Global core/core plus	$100m
Infracapital Greenfield II	European core plus	£100m
iCON V	European core/core plus	$100m
Arcus European II	European core plus/value add	€90m
Macquarie GIG II	Global renewables	€101m
Stonepeak	Global renewables	$100m
Series 1B		
Patria IV	Latin America core/core plus	$100m

Private Credit

Fund	Description	Commitment (LC)
Series 1A/B		
HPS Mezzanine 2019	Global mezzanine	$104m
GSO IV	Global mezzanine	$125m
Ares V	European direct lending	£115m

BCPP Joint Committee

Date of Meeting: **1 October 2020**

Report Title: **Annual review of UK Listed Equity Fund (for information and discussion)**

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

1 Executive Summary

1.1 The annual review of the UK Listed Equity sub-fund has been performed in line with the Border to Coast Product Development and Review Policy.

1.2 The review includes performance and risk profile; the suitability of the benchmark; the appropriateness of the portfolio structure and portfolio construction; and whether customer requirements are being met.

1.3 The key points to note are:

- The performance of the UK sub-fund has been strong in both absolute and risk-adjusted terms.
- The benchmark and the compliance limits are considered to be suitable. However, consideration of alternative benchmarks, which take into account climate change risk, is currently being undertaken.
- Additional resources in Research have provided support to the Portfolio Managers and will aid longer term succession planning.
- The portfolio structure is considered to be appropriate. Portfolio construction requires more work in the medium term to increase active risk and active share as well as reducing the number of holdings and ensuring that ESG and Responsible Investment is fully embedded into the investment process.
- The relatively low active risk and active share has not had a negative impact on performance and given the current heightened uncertainty a lower risk approach is warranted.
- A review of the use of collective vehicles to obtain exposure to smaller companies was performed in June 2020. It was concluded that no material changes to portfolio construction were required but would be kept under review.
- No substantive changes to the sub-fund are considered necessary following the annual review.

2 Recommendation

2.1 That the report is noted.

3 UK Equity Sub-Fund

Performance

3.1 The sub-fund (current AUM of **£3.9bn**) has out-performed the benchmark and target (benchmark + 1%) since inception:

UK Listed Equity	1 year	Since inception
Sub-fund	(11.7%)	(5.1%)
Benchmark	(13.0%)	(6.8%)
Relative	1.3%	1.7%

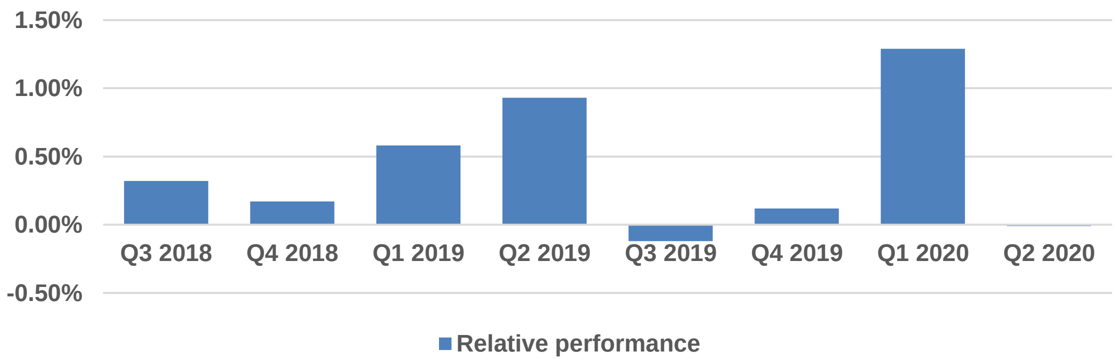
Annualised returns as at 30 June 2020

3.2 The sub-fund has also performed better than the peer group, ranking in the second quartile for performance and the first quartile for risk-adjusted performance.

UK Listed Equity (percentile ranking)	1 year	Since inception
Relative performance	49th	34th
Information ratio	23rd	7th

Source: eVestment (based on 52 UK Core Equity portfolios)

3.3 Performance has also been relatively consistent during the last year. It is pleasing to note that the sub-fund was able to outperform during the market correction and to hold on to the majority of this outperformance in the subsequent recovery, although it should be noted that the UK market has not rebounded to the same extent as global equity markets.



3.4 The majority (c. 60%) of the out-performance during the year is due to stock selection. The key reasons for out-performance during the year were:

- Stock selection:
  - Industrials – o/w Defence (BAE Systems, Cobham, Ultra Electronics) and u/w Aerospace (Rolls Royce, Meggitt); and exposure to stocks that have either benefited or not being affected by Covid-19 disruption (Rentokil – cleaning products, Ashtead – equipment rental, and Ferguson – construction and home improvements);
  - Utilities – o/w National Grid and Pennon Group, u/w Centrica; and
  - Healthcare – o/w in AstraZeneca.
- Sector allocation:
  - Underweight in Financials – predominantly u/w in Banks;

- Overweight in collectives – strong relative performance from biotech and environmental funds; and
- A modest cash position – c. 2% average cash position during the year.

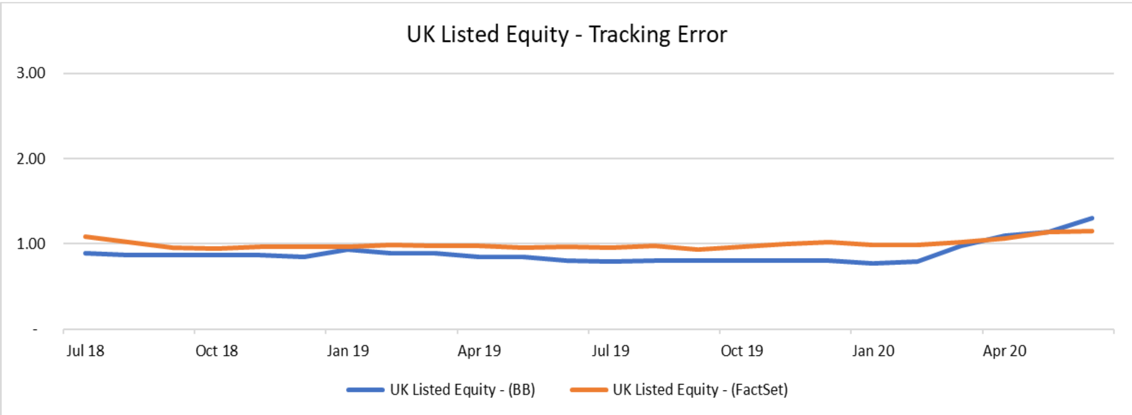
3.5 The portfolio has also been tilted towards companies with overseas exposure which have benefited due to the depreciation in sterling and the relative under-performance of domestic-focused stocks as a result of the continued uncertainty around Brexit.

3.6 The sub-fund has a quality bias with a focus on companies that are able to generate long term sustainable growth and benefit from long term demographic trends. Cyclical exposure will typically be focused on companies with an identifiable competitive advantage e.g. lowest cost provider. The sub-fund would seek to avoid poorer quality cyclical stocks other than when emerging from a deep market correction.

3.7 The sub-fund has increased cyclical exposure in recent months following the Covid-19 induced market correction. However, the Portfolio Managers remain cautious, particularly following a sharp recovery in equity markets, the risk of a second wave of Covid-19 infections, and continued Brexit uncertainty.

Risk profile

3.8 The tracking error has been broadly stable since inception at c. **1.15%** on an ex-post basis which is at the bottom end of the target range of 1 – 3%, resulting in an information ratio, a measure of the excess return relative to the risk of the portfolio, of **1.5**.



3.9 There has been a modest increase in tracking error in the last few months as a result of the increase in market volatility. The Portfolio Managers remain cautious due to the reasons outlined in **3.7** and it is likely that the risk profile of the sub-fund will remain towards the bottom end of the range until there is greater clarity on some of the issues.

3.10 Stock-specific risk (c. 85% of total risk) has been the key contributor to risk.

Benchmark

3.11 The current benchmark is **FTSE All Share** which is the common benchmark for UK equities and is considered to be appropriate at the current time. A review of the use of alternative benchmarks, which take into account climate change risk, is currently being undertaken.

Liquidity

3.12 In terms of liquidity, Border to Coast monitors six different liquidity metrics using short (30 day) and long term (90 day) data. On a small number of occasions during the year, two of these metrics were not met. This is due to a small number of holdings, predominantly investment trusts, that are relatively illiquid. This has not constrained the Portfolio Managers in their investment decisions or portfolio construction.

Resources

3.13 The sub-fund is managed by two Portfolio Managers, Ross Martin and David Hearn, with extensive experience of managing UK equities. They are supported by the wider resources within the Research function. In addition, James McLellan joined Border to Coast in September as Senior Portfolio Manager – Equities and will provide additional support and oversight. Long term succession planning is included within Border to Coast's Strategic Plan 2020 – 22.

Portfolio structure

3.14 The portfolio is managed jointly by the two Portfolio Managers and investment decision making is by agreement as opposed to each Portfolio Manager being responsible for a defined part of the portfolio.

3.15 This approach was a collective decision by the Portfolio Managers during the design phase and has operated well since inception. It is not considered necessary to change the portfolio structure at the current time although it will be kept under regular review and would be revisited in the event of a change in personnel.

Portfolio construction

3.16 The average number of holdings during the year was **120** and has remained broadly stable throughout the year.

3.17 The active share, which quantifies the degree to which a portfolio's holdings are different from those of the benchmark, is **30%** and has remained broadly stable since inception. Although this would typically be categorised as a "closet indexer" the level of out-performance is not consistent with this categorisation.

3.18 Portfolio turnover has averaged **c. 5%** during the year as the sale of the non-core holdings was substantially complete in the previous year. This is below the level expected prior to launch but is compatible with a long term focus on fundamental analysis.

3.19 During the year, Border to Coast reviewed the use of collective vehicles to obtain exposure to smaller companies. The conclusion of this analysis was that the use of collective vehicles remained appropriate. The decision as to whether this exposure is obtained via one (potential cost savings) or multiple (diversity of style) managers will continue to be kept under review.

ESG and Responsible Investment

3.20 ESG and Responsible Investment is considered an integral part of the investment process with a dedicated ESG section in the investment documentation for each company. The Portfolio Managers have developed a greater understanding of ESG and RI through interaction with the RI team and external service providers.

3.21 ESG screens and carbon footprints are analysed on a quarterly basis which highlights any material ESG and carbon risks in the portfolio. Portfolio Managers also participate into the voting process with key resolutions discussed with the RI team. Work is ongoing to further embed this into the investment process including regular training sessions and an increase in engagement with portfolio companies where appropriate.

Customer requirements

3.22 Feedback has been sought from the partner funds that are currently invested in the sub-fund. The following key questions (and responses) were:

- *Has remote working had any impact on how the portfolio has been managed?* There have been no changes to how each internal sub-fund has been managed. The move to remote working has not had a detrimental impact on collaboration and exchange of ideas. There have been minor adjustments to processes but nothing substantive.
- *Has there been any staff turnover?* There has been no changes in personnel at the portfolio management level. There has been some turnover in the Research function which supports the Portfolio Managers. Two Research Managers have left Border to Coast and three Research Managers have been appointed in 2020.
- *How is ESG/RI integrated into the investment process and how are you responding to investor desire to reduce the fund's carbon footprint.* ESG and RI are considered as part of the investment process including identifying associated risks and opportunities. This will be developed further over time using our existing relationships with MSCI, Robeco and RepRisk. Carbon exposure is measured using MSCI's methodology and again forms part of the investment process. We are currently developing additional ESG and RI reporting to share with Partner Funds.
- *What is the rationale for holding smaller companies in separate funds?* The fund obtains the majority of its exposure to smaller companies via collective vehicles for the following reasons:
    - Performance – managers of collective vehicles have added significant outperformance over the long-term net of costs (c. 5 – 6% over the last 20 years).
    - Resources – internal resources would need to be considerably greater to be able to cover the full investment universe. In addition, the quantum and quality of external research on smaller companies has reduced considerably over the last decade.
    - Specialist sectors – it is considered appropriate to use specialists for certain sectors e.g. biotech, technology, environmental.
- *What does the level of portfolio turnover indicate about how the portfolio is managed?* Portfolio turnover, covered in **3.18** above, is broadly in line with expectations and is compatible with a long term focus.
- *Has the risk profile of the fund increased as a result of the current environment?* There has been a modest increase in portfolio risk which is predominantly due to an increase in market volatility as opposed to an increase in the fund's risk profile, which is not expected to change materially.

- *Are you using enough of the sub-fund's risk budget?* The risk profile of the sub-fund has been at the lower end of the range due to uncertainty around market conditions and Brexit uncertainty. However, this has not had a negative impact on performance since inception.
- *Can Partner Funds have greater access to the portfolio managers?* Following a review of our client reporting and communication methods it is likely that there will be greater interaction with Partner Funds and additional reporting.

4 Conclusion

4.1 The annual review of the UK equity sub-fund has been completed. Performance, in both absolute and risk-adjusted terms, has remained strong.

4.2 No significant issues have been raised during the review although the following areas have been highlighted:

- Ensuring suitable resources are available to manage the sub-fund, particularly for succession planning.
- Increasing the active risk in the sub-fund, via a reduction in number of holdings and increasing relative over and underweight positions where considered to be appropriate. However, the low risk profile has not had a detrimental impact on absolute or risk-adjusted performance.
- Ensuring continued progress in embedding ESG factors and Responsible Investment more generally into the investment process.
- A review of exposure to smaller companies via collective vehicles concluded that no changes were considered necessary at the current time, but this will be kept under review.

5 Author

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22 September 2020

BCPP Joint Committee

Date of Meeting: **1 October 2020**

Report Title: **Annual review of Overseas Developed Markets Equity Fund (for information and discussion)**

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

1 Executive Summary

1.1 The annual review of the Overseas Developed Markets Equity Fund has been performed in line with the Border to Coast Product Development and Review Policy.

1.2 The review includes performance and risk profile; the suitability of the benchmark; the appropriateness of the portfolio structure and portfolio construction; and whether customer requirements are being met.

1.3 The key points to note are:

- The performance of the Overseas Developed sub-fund has exceeded the target in both the last year and since inception and is attractive in risk-adjusted terms.
- The risk profile of the sub-fund has increased but remains at the lower end of the indicative range. This is despite the risk profiles of the individual portfolios being closer to the middle or top end of the range.
- The benchmarks are considered to be appropriate. The previous annual review discussed the suitability of the benchmark for Pacific ex-Japan due to the presence of South Korea (which can also be classified as an emerging market). As the current benchmark for the Emerging Markets Hybrid fund is FTSE Emerging Markets (which does not include South Korea) the benchmark is considered appropriate for those Partner Funds that have invested in both sub-funds.
- There have been four rebalancing exercises during the year to re-align country allocations. A new rebalancing methodology was implemented in June 2020 to more closely align re-balancing with relative benchmark movements.
- Additional resources in Research have provided support to the Portfolio Managers and will aid longer term succession planning.
- There has been a significant reduction in the number of holdings, an area highlighted in the last annual review, in order to increase both active risk and active share. Whilst this has served to increase the tracking errors and active share of the individual portfolios it has had less of an impact at the sub-fund level.
- The potential to develop the sub-fund was discussed with investors during 2019. It was agreed to delay further consideration to allow time for the portfolio managers to adjust to their transfer to Border to Coast. This will be revisited in due course.

- No substantive changes to the sub-fund are considered necessary following the annual review.

2 Recommendation

2.1 That the report is noted.

3 Overseas Developed Markets Sub-Fund

Performance

3.1 The sub-fund (current AUM of **£3.0bn**) has out-performed the benchmark in the last year and since inception with stronger relative performance in Pacific ex-Japan and US and weaker performance in Europe ex-UK:

Overseas Developed Markets	1 year	Since inception
Sub-fund	5.1%	5.7%
Benchmark	3.5%	4.5%
Relative	1.6%	1.2%
US	*+2.4%*	*+1.5%*
Europe ex-UK	*-0.2%*	*+0.3%*
Pacific ex-Japan	*+3.1%*	*+2.2%*
Japan	*+0.8%*	*+1.1%*

Annualised returns as at 30 June 2020

3.2 The sub-fund receives a beneficial tax treatment relative to standard withholding tax rates used in calculating net benchmark returns. It is estimated that c. 30% (c. 0.35% p.a. since inception) of the out-performance is due to the beneficial tax treatment. Around half of this benefit occurs in the US portfolio, with the remainder broadly spread across the European and Pacific portfolios with minimal impact on Japan.

3.3 Using an MSCI World (ex-UK) benchmark, the sub-fund has performed in line with the peer group over the last year but has underperformed on both an absolute and risk-adjusted basis since inception.

Overseas Developed Markets (percentile ranking)	1 year	Since inception
Relative performance	50th	66th
Information ratio	49th	61st

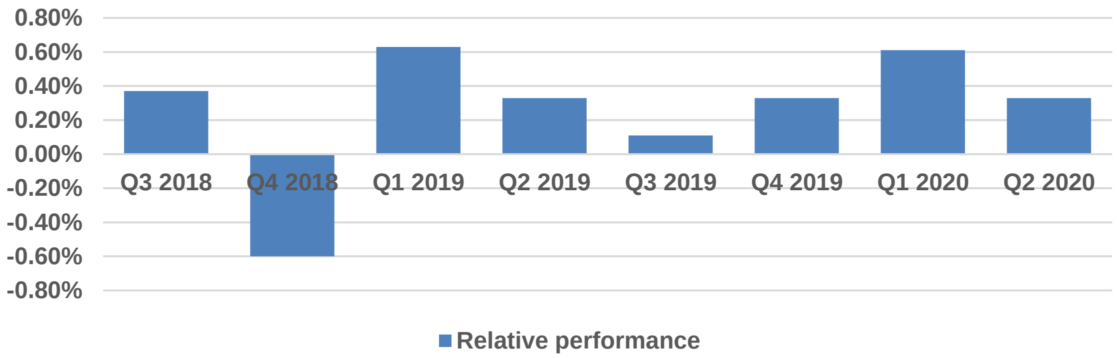
Source: eVestment (based on 171 Global Core Developed portfolios)

3.4 However, this benchmark has a higher exposure to US (67% v. 40%) and a lower exposure to Europe ex-UK (18% v. 30%) and Pacific ex-Japan (4% v. 20%) than the sub-fund's benchmark. Comparing the performance and risk of the sub-fund (relative to its composite benchmark) and the equivalent information for the peer group (relative to the MSCI World ex-UK benchmark) would result in the sub-fund being at the upper end of the first quartile.

Overseas Developed Markets (quartile ranking)	1 year	Since inception
Relative performance	1st	1st
Information ratio	1st	1st

Source: eVestment (based on 171 Global Core Developed portfolios)

3.5 Performance has been relatively strong and consistent during the last year. It is pleasing to note that the sub-fund was able to out-perform both during the market correction but also during the subsequent recovery. The only period of under-performance since inception occurred in Q4 2018 due to rising bond yields adversely impacting quality and bond proxy stocks; a reduction in earnings expectations; and the escalation of the US/China trade war, which had a disproportionate impact on technology stocks in which the sub-fund was overweight.



3.6 The majority of the out-performance is due to stock selection with sector allocation making a more modest contribution. The key reasons for out-performance during the year were:

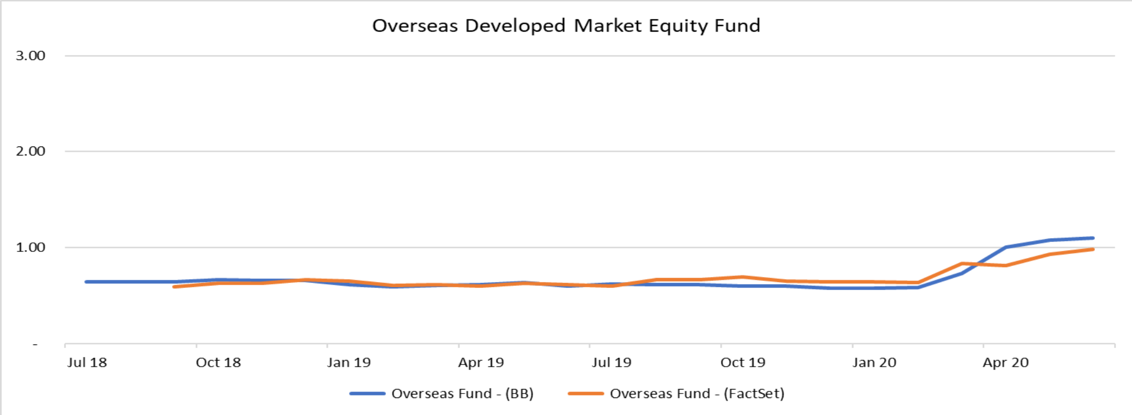
- Stock selection in:
  - Consumer Services (o/w in Dollar General and Amazon);
  - Consumer Goods (o/w in NCSoft); and
  - Technology (o/w in Nvidia, Microsoft and Logitech).
- Sector allocation:
  - u/w Financials (particularly Banks); and
  - o/w Technology.

This was partly offset by weaker stock selection in Industrials (o/w Airbus) and Healthcare, and an overweight position in France.

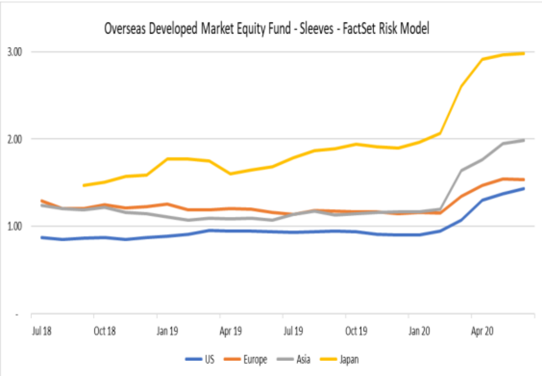
3.7 The sub-fund has a quality and growth bias with a focus on companies that can withstand economic and market volatility. Quality is defined as companies with an identifiable and sustainable competitive advantage, earnings visibility, balance sheet strength and strong management.

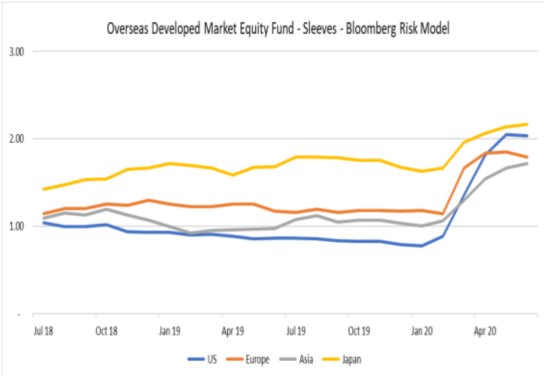
Risk profile

3.8 The tracking error has increased recently to c. **1%** on an ex-post basis (from c. 0.6%) which is at the bottom end of the target range of 1 – 3%. The increase in tracking error has been due to a combination of an increase in market volatility and a reduction in the number of stocks held. The information ratio, a measure of the excess return relative to the risk of the portfolio, since inception has been exceptionally strong at **1.9**.



3.9 The tracking errors of the individual portfolios have increased in recent months due to the increase in market volatility and a reduction in the number of holdings. Tracking errors range from 1.4% (US) to 3% (Japan) using FactSet although there has been a notable divergence between the FactSet and Bloomberg risk models since the market correction (this is due to the relative weightings of near term experience).





3.10 Although the individual portfolios are considered to be taking a suitable level of risk, the risk profile of the sub-fund as a whole is significantly lower. The key reasons for this are the number of stocks in the sub-fund (c. 330) resulting in diversification (although efforts have been made to reduce the number of stocks over the last year) and portfolio positioning in the US appears to have an offsetting effect on the risk at a sub-fund level (lower relative exposure to Basic Materials, Industrials and Technology and relatively higher exposure to Consumer Services). These are not significant differences and some of it is due to how stocks are classified in the different markets.

3.11 The key contributors to risk are:

- Stock-specific risk (c. 52% of total risk, individual portfolios range from 60 – 70% but diluted at sub-fund level).
- Style risk (c. 25%) – overweight to lower volatility stocks and underweight to value stocks are the key style exposures.
- Industry (c. 11%) – underweight to Consumer and Financials are the key risk exposures.
- Country (c. 10%) – overweight to France and underweight to Nordics are the key risk exposures.

Benchmark

3.12 The current benchmark is a composite of the following:

- **S&P 500** (40% – c. 505 stocks) – common benchmark for US stocks and considered to be appropriate but it should be noted that the sub-fund does not have an exposure to Canadian stocks (unless held as off-benchmark positions) which account for c. 10% of North America.
- **FTSE Developed Europe ex-UK** (30% – c. 455 stocks) – common benchmark for European stocks and considered to be appropriate.
- **FTSE Developed Pacific ex-Japan** (20% – c. 380 stocks) – although it is a relatively common benchmark it does include South Korea which is classified as an emerging market by MSCI, another popular index provider. The existing benchmark for the Emerging Markets sub-fund (S&P Emerging) does not include South Korea Border to Coast is in the process of redesigning the current internal Emerging Markets fund into a hybrid fund (consisting of an external China specialist with the ex-China portfolio being managed internally) and the favoured benchmark is FTSE Emerging Markets. As this does not include South Korea, and so there will be no overlap, it is considered appropriate that the current benchmark for Pacific ex-Japan is retained.
- **FTSE Japan** (10% – c. 510 stocks) – common benchmark for Japanese stocks and although the Nikkei is a more recognised benchmark this has a bias towards larger companies (largest 225 companies).

Re-balancing and Liquidity

3.13 There have been 4 rebalancing exercises during the year (two in February 2020 and two in April 2020). In June 2020, a change in the rebalancing methodology was agreed. Portfolios will now be rebalanced on a quarterly basis in line with the resetting of the benchmark weights, and only rebalanced intra-quarter if the variation is due to portfolio alpha rather than benchmark movements.

3.14 In terms of liquidity, the sub-fund is very liquid and there have been no instances where liquidity metrics have been breached.

Resources

3.15 The sub-fund is managed by four Portfolio Managers (Shaun Lovett – US, Amit Taank – Europe, Myles Andrews – Asia Pacific, and David Vincent – Japan). The only change since last year's review is that David Vincent has been promoted to Portfolio Manager and has assumed sole responsibility for the Japanese portfolio. This was in recognition that each portfolio required a dedicated Portfolio Manager as a minimum.

3.16 The Portfolio Managers are supported by the wider Research team.

3.17 At the last annual review, it was considered that four Portfolio Managers supported by three Research personnel and the wider resources in the Investment function should be sufficient to manage the portfolios. This remains the case but will continue to be reviewed on a regular basis to ensure that this remains valid. In addition, James McLellan will joined Border to Coast in September as Senior Portfolio Manager – Equities and will provide additional support and oversight. Long term succession planning is included within the Strategic Plan 2020 – 22.

Portfolio structure

3.18 The original design for the Overseas Developed Markets sub-fund included an element of flexibility in the event that investors wanted to separate the four portfolios into separate sub-funds at a later date. As a result, each portfolio is managed separately.

3.19 As part of last year's annual review, two potential changes to the portfolio structure were considered and discussed with existing investors:

- Dispense with the separate portfolios for each region and manage the sub-fund on a Global basis with each Portfolio Manager continuing to monitor their region but with collective decision making;
- Continue to manage the sub-fund as four separate portfolios but with greater levels of concentration within each portfolio and a consideration of relative value between regions when constructing the portfolios.

3.20 These potential changes were considered appropriate in terms of a more efficient use of resources and increasing the level of portfolio risk commensurate with the target tracking error.

3.21 It was decided that it was too early in the life of the sub-fund to consider material changes as to how it is operated. It was agreed that Border to Coast undertake further work as to how this would operate in practice and revisit at a later date. Border to Coast will undertake further work on potential options and will share these with investors.

Portfolio construction

3.22 The number of holdings has reduced from c. 410 (as at 30 June 2019) to c. 330 (as at 30 June 2020) as a result of portfolio rationalisation (average: c. 360). This process is expected to continue, albeit to a lesser extent, in the short term. This is to ensure the portfolios are targeting a level of risk which is commensurate with the return target.

3.23 The active share is **41%** which would not typically be categorised as "active management" although the strong risk-adjusted performance is not consistent with this categorisation. The active share in the US and European portfolios are in line with the sub-fund, Japan is higher (c. 60%) and Pacific ex-Japan is lower (c. 33%).

3.24 Portfolio turnover has averaged **c. 11%** during the year which is at the level expected prior to launch and is compatible with a long term focus on fundamental analysis.

ESG and Responsible Investment

3.25 ESG and Responsible Investment is considered an integral part of the investment process with a dedicated ESG section in the investment documentation for each company. The Portfolio Managers have developed a greater understanding of ESG and RI through interaction with the RI team and external service providers.

3.26 ESG screens and carbon footprints are analysed on a quarterly basis which highlights any material ESG and carbon risks in the portfolio. Portfolio Managers also participate into the voting process with key resolutions discussed with the RI team. Work is ongoing to further embed this into the investment process including regular training sessions and an increase in engagement with portfolio companies where appropriate, although it is acknowledged that this may be harder to achieve in overseas markets.

Customer requirements

3.27 Feedback has been sought from the Partner Funds that are currently invested in the sub-fund. In addition to the issues that were raised as part of the UK equity sub-fund review, the following key questions (and responses) were:

- *Will you be providing updates on ESG?* We are currently developing additional ESG and RI reporting to share with Partner Funds.
- *How has the process developed since inception and has it changed the level of conviction?* The core investment philosophy has remained broadly unchanged since inception. The increased resources, particularly within the Research function, has enabled more detailed due diligence. This has aided the Portfolio Managers in reducing the number of stocks held, particularly within the Overseas Developed sub-fund. This process is expected to continue, and it is likely that portfolio conviction will increase further over time.
- *Has the recent dislocation challenged the investment thesis for the funds or reinforced the approach?* The sub-funds' focus on quality companies with strong balance sheets, an identifiable competitive advantage, and income visibility has resulted in relative out-performance in 2020. There has been some modest rotation out of these out-performing stocks into more cyclical stocks in anticipation of a potential recovery. However, there is unlikely to be a material change in the types of companies that are targeted by the sub-fund.
- *Are you using enough of the sub-fund's risk budget and how is portfolio risk expected to develop over time?* The risk profiles of the individual portfolios are in the middle of the indicative range due to an increase in market volatility and a reduction in the number of holdings. Correlations between portfolios has had a dampening effect on the risk profile of the sub-fund as a whole, which has been toward the lower end of the range since inception. This has not had a detrimental impact on performance since inception. Higher conviction positions and a lower number of stocks is likely to result in an increase in risk profile over the long term. However, the portfolios will continue to be managed on a low risk basis.

4 Conclusion

4.1 The annual sub-fund review of the Overseas Developed Markets equity sub-fund has been completed. Performance, in both absolute and risk-adjusted terms, has been strong, particularly in the last year.

4.2 No significant issues have been raised during the review although the following areas have been highlighted:

- Ensuring suitable resources are available to manage the sub-fund, particularly for succession planning.
- Increasing the active risk in the sub-fund, via a reduction in number of holdings and increasing relative over and underweight positions where considered to be appropriate. However, the low risk profile has not had a detrimental impact on absolute or risk-adjusted performance.
- Ensuring continued progress in embedding ESG factors and Responsible Investment more generally into the investment process.
- The benchmark for Pacific ex-Japan is considered appropriate given the proposed benchmark for Emerging Markets Hybrid (avoiding overlap with South Korea).

- Further investigating more efficient and effective ways of managing the sub-fund in the long term.

5 Author

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 10

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