BORDER TO COAST
TCFD REPORT 2019/20

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.

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TCFD report

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

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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:

- 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.

Location: Cumbria

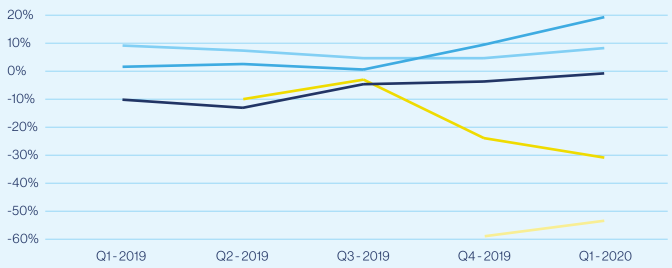
Metrics and targets continued

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

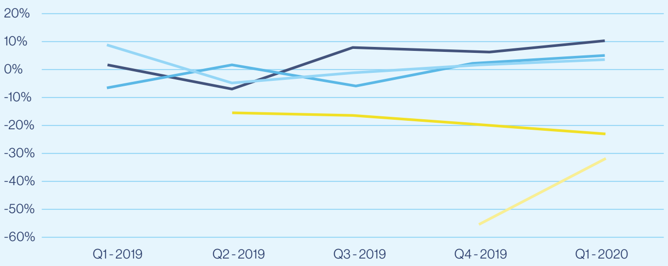


The data is from MSCI as at 31/03/2020.

	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

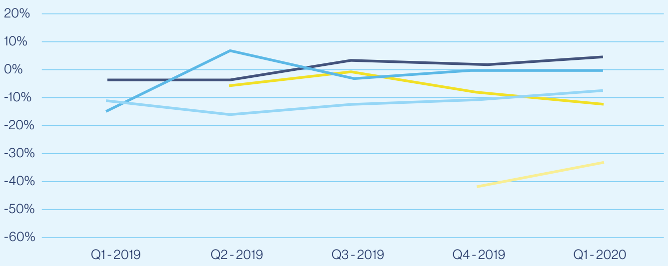
Carbon intensity relative to benchmark: 31/03/19–31/03/20



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

- 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.

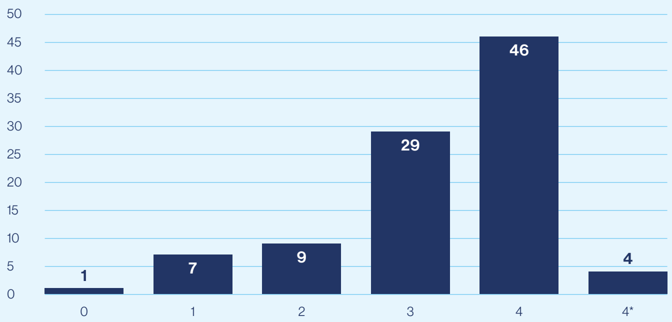
Carbon emissions (per million dollars invested)
Carbon Emissions normalises the carbon emissions for every $1,000,000 of market value. As a normalised metric, it can be used to accurately compare portfolios of any size. It is sensitive to changes in market value of the portfolio and is only applicable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