



Minutes of the Border to Coast Joint Committee Thursday 1 October 2020 - Virtual Meeting

Present

Members

Councillor Tim Evans (Chair)
Councillor Mark Davinson, Councillor John Horner, Councillor Patrick Mulligan, Councillor Mick Stowe, Councillor Eddie Strengiel and Councillor Mel Worth

Deirdre Burnet and Nicholas Wirz (Scheme Member Representatives)

Border to Coast Ltd Representatives

Daniel Booth, Rachel Elwell, Chris Hitchen and Mark Lyon

Councillor John Holtby and Councillor Anne Walsh, Shareholder non-executive directors on BCPP Ltd's Board of Directors ("Partner Fund nominated NEDs")

Fund Officers

Ian Bainbridge, Alison Clark, Neil Mason, Julie McCabe, Tom Morrison, Nick Orton, Jo Ray and Gill Richards

Statutory Officer Representative(s)

George Graham

Apologies were received from

Councillor Jane Evison, Councillor Wilf Flynn, Councillor Eileen Leask and Councillor Doug McMurdo

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

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

The Chair expressed condolences on the death of Cllr Bob Stevens from Warwickshire Pension Fund. A minutes silence was held in remembrance.

It was requested that best wishes from the Committee be sent to Cllr Eileen Leask.

The Chair welcomed Cllr John Horner from Warwickshire Pension Fund to his first meeting.

There were no declarations of interest.

2 MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON 16TH JUNE 2020

RESOLVED – That the minutes of the meeting held on 16th June 2020 be agreed and signed by the Chair as a true record.

3 JOINT COMMITTEE TERMS OF REFERENCE - IAN BAINBRIDGE (FOR INFORMATION AND DISCUSSION)

The Committee considered a report which invited views on the Committee's Terms of Reference, the objectives of the Committee and how the Committee operated in practice and if these were still relevant as Border to Coast was moving more to an operational phase.

RESOLVED – That Officers consider potential changes and discuss options with the Chair and report back to the Joint Committee with any suggested changes.

4 COVID 19 (VERBAL) - (FOR INFORMATION AND DISCUSSION)

It was reported that Border to Coast continued to react to circumstances.

Staff had been surveyed around their attitudes to returning to work however. Recent local restrictions had put any return to work on hold.

The Board were confident that all work that needed to be done continued to be done efficiently remotely.

The Chair thanked C Hitchen for the update.

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

A report was submitted to inform the Joint Committee of the 2020/21 budgetary position.

RESOLVED – That the report be noted.

6 RESPONSIBLE INVESTMENT UPDATE - JANE FIRTH (FOR INFORMATION AND DISCUSSION)

A report was considered that provided an update on Responsible Investment activities and reporting carried out by Border to Coast.

Members noted that Border to Coast had published their second Annual Responsible Investment and Stewardship report in July.

The revised UK Stewardship Code came into effect from 1st January 2020 and was much more ambitious than its predecessor. Border to Coast had identified the steps that needed to be taken to meet the reporting requirements for 2021.

The report also gave updates on the Task Force on Climate-related Financial Disclosures, the UN-supported Principles for Responsible Investment and the annual review of Border to Coast's Responsible Investment policies, including work on a stand-alone Climate Change Policy.

The Chair commented that Responsible Investment and, in particular, climate change was a growing issue for all Partner Funds.

Cllr Stowe announced that, at its meeting the previous day, South Yorkshire Pensions Authority had agreed to set a goal for its investment portfolios to be net zero in terms of carbon emissions by 2030.

In debating this issue South Yorkshire members had questioned the engagement processes being used. There may be occasions when engagement had run its course and had achieved no impact on the behaviour of a company. In such cases it was felt that there needed to be much greater clarity on how the fact that the company had refused to respond was reflected in decision making.

The intention to have a stand-alone Climate Change policy was welcomed and South Yorkshire Pensions Authority volunteered to be involved in its development.

The Committee and officers discussed the issue of Partner Funds being at different stages with their Responsible Investment policies and views. It was vital that the Partner Funds made it clear exactly what they wanted from Border to Coast but recognised the challenge Border to Coast had in consolidating this into an approach that every Fund was comfortable with.

In answer to a question, D Booth outlined the process with regard to Responsible Investment when making investment decisions.

In answer to a question from the Chair, the Partner Funds agreed that climate change was an issue for each individual Fund, some to a greater degree than others.

RESOLVED – That the report be noted.

7 BORDER TO COAST MARKET REVIEW - DANIEL BOOTH (FOR INFORMATION AND READ ONLY)

A report was submitted which provided an overview of 2020 market performance and the macroeconomic environment.

RESOLVED – That the report be noted.

8 PERFORMANCE REPORT - DANIEL BOOTH (FOR INFORMATION AND DISCUSSION)

The Committee considered a report which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over Q2 2020.

It was noted that performance was broadly in line with the benchmark for Q2 2020 but continued to meet the Performance Objectives over longer periods.

Five of the six internal funds had outperformed and the composite of the internal funds was above target.

With regard to external funds, two of the three funds had outperformed but the composite was below target because of an underperformance in Global Equity Alpha.

There was a discussion regarding the level of detail provided to the Joint Committee and individual Pensions Committees. It was agreed this would be discussed further when reviewing the Committees Terms of Reference.

RESOLVED – That the report be noted.

8a UK LISTED EQUITY PERFORMANCE

A report was submitted that summarised the performance of the Border to Coast UK Listed Equity Fund over Q2 2020.

It was noted that performance was broadly in line benchmark for the quarter but continued to meet the Performance Objectives over longer periods.

RESOLVED – That the report be noted.

8b OVERSEAS DEVELOPED EQUITY PERFORMANCE

A report was submitted which summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q2 2020.

Overall Fund performance was above target over Q2 2020 and was above benchmark since inception.

The key theme affecting the Fund during the quarter had 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.

RESOLVED – That the report be noted.

8c EMERGING MARKETS EQUITY PERFORMANCE

The Committee considered a report which summarised the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q2 2020.

It was noted that performance was below the benchmark for the quarter and was below the benchmark and target since inception.

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

The Fund would continue to focus on long-term fundamentals with a bias towards quality companies with strong balance sheets and 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.

8d UK LISTED EQUITY ALPHA PERFORMANCE

A report was submitted that summarised the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q2 2020.

The Committee noted that the Fund's performance had bounced back over Q2. The Fund remained below benchmark over the past year but was back ahead of benchmark since inception.

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

RESOLVED – That the report be noted.

9a ANNUAL REVIEW OF ALTERNATIVES

The Committee considered the first annual review of the Alternatives programme which had performed in line with Border to Coast Product Development and Review Policy.

The review had 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 were being met.

Key points noted were:

- Commitments from Partner Funds were higher than expected.
- Capital had been deployed in line with expected timeframes.
- Benefits included cost savings versus industry average, development of industry partnerships and improving access to investments for Partner Funds.
- The costs of the structure were broadly in line with original expectations.
- Partner Funds had been very supportive both during the design stage and the first year of operation.

- There were a number of future product developments that were currently in the planning stage and would be progressed further where there was sufficient demand.
- The structure would be reviewed to determine whether additional flexibility was required from a tax perspective, particularly with regards to US investments.

RESOLVED – That the report be noted.

9b ANNUAL REVIEW OF UK LISTED EQUITY

The Committee considered the annual review of the UK Listed Equity Fund.

The review included the performance and risk profile, the suitability of the benchmark, the appropriateness of the portfolio structure and construction and whether customer requirements were being met.

The following key points were noted:

- The performance of the UK sub-fund had been strong in both absolute and risk-adjusted terms.
- The benchmark and the compliance limits were considered to be suitable.
- Additional resources in research had provided support to the portfolio Managers and would aid longer term succession planning.
- The portfolio construction was considered to be appropriate.
- The relatively low active risk and active share had not had a negative impact on performance and given the current heightened uncertainty a lower risk approach was warranted.
- A review of the use of collective investment vehicles to obtain exposure to smaller companies was performed in June 2020. It was concluded that no material changes to portfolio construction was required but this would be kept under review.
- No substantive changes to the sub-fund were considered necessary following the annual review.

Members noted that the majority of the out-performance during the year was due to stock selection. The key reasons for this were detailed within the report.

The sub-fund had increased cyclical exposure in recent months following the market recovery. However, the portfolio managers remained cautious, particularly following a sharp recovery in equity markets, in light of the risk of a second wave of Covid-19 infections and continued Brexit uncertainty.

RESOLVED – That the report be noted.

9c ANNUAL REVIEW OF OVERSEAS DEVELOPED EQUITY

The Committee considered the annual review of the Overseas Developed Markets Equity Fund.

The review included the performance and risk profile, the suitability of the benchmark, the appropriateness of the portfolio structure and construction and whether customer requirements were being met.

The following key points were noted.

- The performance of the Overseas Developed sub-fund had exceeded the target in both the last year and since inception.
- The risk profile of the sub-fund had increased but remained at the lower end of the indicative range.
- The benchmarks were considered appropriate.
- There had been four rebalancing exercises during the year to realign allocations.
- There had been a significant reduction in the total number of holdings, an area which had been highlighted in the last annual review.
- The potential to develop the sub-fund was discussed with investors during 2019. It was agreed to delay further consideration to allow time for Portfolio Managers to adjust to their transfer to Border to Coast. This would be revisited in due course.
- No substantive changes to the sub-fund were considered necessary following the annual review.

RESOLVED – That the report be noted.

Exclusion of the Public and Press

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

R Elwell presented the 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 fund performance.
- An update on fund launches.
- An update from a corporate functions perspective and the expected outturn for the Operating Budget.
- A brief discussion of activity in the other pools.

From a risk perspective, the period had been dominated by the responses to, and implication of, Covid-19. Further details were contained within the report.

R Elwell thanked officers and Partner Funds for their time given to keep pooling moving during challenging times.

RESOLVED – That the report be noted.

11 **UPDATE ON EMERGING MATTERS (VERBAL) - RACHEL ELWELL/FIONA MILLER AND IAN BAINBRIDGE (FOR INFORMATION AND DISCUSSION)**

None.

CHAIR