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BCPP JOINT COMMITTEE

AGENDA

Venue: **Virtual Meeting**

Date: **Tuesday 24 November 2020**

Time: **10.45 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 Jane Evison	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

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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 (Scheme Member Representative)
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, Councillor Doug McMurdo and Nicholas Wirz

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 20220 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

PENSIONS PARTNERSHIP

BCPP Joint Committee

Date of Meeting: **24th November 2020**

Report Title: **Joint Committee Meeting Arrangements**

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

1.0 Recommendation

1.1 The Joint Committee is asked to note the changes to the approach to operating the Joint Committee and to provide comments and views on the success or otherwise of these changes at the end of the meeting or after the meeting.

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 At the meeting of the Joint Committee on 1st October 2020 a report was presented which proposed that further consideration be given to these Terms of Reference and the role and objectives of the Joint Committee and how it operates in practice.

2.6 This report generated a good debate and it was concluded that the Terms of Reference still appeared reasonable and the focus of any change should be on the approach to the meeting itself.

2.7 At the meeting on the 1st October it was resolved that "That the Officers consider potential changes and discuss options with the Chair and report back to the Joint Committee."

2.8 The Officers have considered options along the lines discussed at the last Joint Committee meeting and discussed these proposals with the Chair of the Joint Committee. An email setting out the proposed changes was sent to the members of the Joint Committee on 9th November 2020. In summary the proposed changes are set out below:

- There is an enhanced Funds only session prior to the Joint Committee meeting where any issues can be discussed at length and we can identify issues to bring out at the formal meeting without Border to Coast being present. Having this enhanced Funds only session prior to the start of the formal Joint Committee meeting means we can invite Border to Coast into the Joint Committee meeting from the start of the formal agenda.

- The current performance reports from Border to Coast, which are currently in the public part of the meeting are moved to the private part of the meeting to ensure that issues of concern can be fully debated and problem managers and potential action discussed. There would still be summarised reporting on performance in the public part of the meeting, but this would be much reduced.

- Officers from the Funds will be asked to make comments and introduce the performance reports, rather than Border to Coast. This should help give the Funds more control and ensure that any issues of concern are raised and debated.

2.9 The proposed changes have been implemented for this meeting of the Joint Committee. It is suggested that the members views on how successful they have been are canvassed at the end of the meeting. It will be important to evolve the arrangements for the Joint Committee to ensure that it is effective.

Report Author:

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

Further Information and Background Documents:

Inter Authority Agreement

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.

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PENSIONS PARTNERSHIP

Border to Coast Joint Committee

Date of Meeting: **24th November 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 two pieces of work. The first is in negotiating changes to the shareholder agreement in relation to arrangements for making additional capital contributions, following an error by Border to Coast. The second is in connection with the merger between Tyne and Wear Pension Fund and Northumberland County Council Pension Fund.

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 Joint Committee

Date of Meeting: 24th November 2020

Report Title: Responsible Investment Policies Review (for discussion)

Report Sponsor: CIO – Daniel Booth

1 Executive Summary

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

1.2 Both policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks.

1.3 In the 2019 review we identified a number of areas for further development during 2020. In March 2020 we held a Partner Fund Responsible Investment workshop to seek Partner Funds' views on these areas to build into the 2020 review:

- With respect to climate change, the consensus was for no targets to be set regarding carbon emissions reduction, with the direction of travel being more important. There was also a reiteration of the importance of engagement rather than divestment (from sectors as opposed to individual, poorly managed companies). The policy reflects this position; however, we note that SYPA has recently set a goal of making its portfolios carbon neutral by 2030.
- Last year the Board requested that diversity beyond gender be considered. The option of broadening the application of the current voting policy on gender diversity to smaller companies and companies outside the UK was discussed. It was noted that voting on wider diversity matters will continue to be difficult where there is paucity of data, however we have suggested an update to the wording in our RI policy, indicating our intent to engage in this important area.

1.4 The industry's understanding of Responsible Investment matters is evolving rapidly and we have therefore identified further areas for future consideration with Partner Funds in 2021 (see section 6). In particular a growing number of asset owners are publishing separate climate change policies and we believe this to be appropriate given its material significance to Partner Fund investment outcomes. We will therefore during 2021 develop a standalone climate change policy building on the work already undertaken within Border to Coast and with Partner Funds.

1.5 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2021 proxy voting season. Partner Fund Officers have provided feedback, much of which has been taken into account in the policies; the Pension Committee review process is due to take place over this coming quarter.

2 Recommendation

2.1 That the Joint Committee reviews and comments on the proposed revisions to the RI Policy (Appendix 1) and Corporate Governance & Voting Guidelines (Appendix 2).

2.2 That the Joint Committee supports taking the revised policies to Pensions Committees for comment and for them to consider adoption of the principles in their own RI policies in line with industry best practice.

2.3 That the Committee notes the proposed areas for future development in Section 6.

3 Background

3.1 We take our responsibility seriously as an active owner and steward of the investments managed on behalf of our Partner Funds, with the aim being to manage risk and generate sustainable, long-term returns. The Border to Coast Responsible Investment policy sets out our approach to RI and stewardship, and the Corporate Governance & Voting Guidelines sets out the approach to, and underlying principles of, voting.

3.2 The reviews in 2018 and 2019 led to changes to the RI policy to reflect the Shareholder Rights Directive and reporting requirements once Border to Coast became a signatory to the Principles for Responsible Investment (PRI). Although these involved considerable changes in structure, the underlying principles remained the same. The Corporate Governance and Voting Guidelines were expanded to cover global corporate governance trends.

3.3 Following Board approval and support of the Joint Committee in November 2019, the revised policies were taken to Partner Funds for comment and for them to consider adoption of the principles in their own RI policies in-line with industry best practice. All Partner Funds accepted the proposed changes.

4 Review process

4.1 The RI policy and Corporate Governance & Voting Guidelines are reviewed annually or when material changes need to be made. The 2020 annual review process commenced in July to ensure any revisions required are in place and agreed with the Board and Partner Funds ahead of the 2021 proxy voting season.

4.2 Current policies were evaluated by Robeco, our voting and engagement provider, considering the global context and best practice. This included consideration of the International Corporate Governance Network1 (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.

[1] International Corporate Governance Network - investor-led organisation to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

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

4.4 The climate change working party which concluded last year identified a number of key areas requiring further work and development as set out in last year's review:

- How to measure transition risk and the implications of setting targets (see 4.6)
- The role private markets will play in managing transition risk (see 4.7)
- Implications of an exclusion policy if engagement is ineffective (see 4.8)
- Continue to embed and enhance analysis in the investment process (see 4.9)
- Provide further education on the TCFD[2] for our Partner Funds (see 4.10)
- Review communication approach to managing climate change risk (see 4.10)

4.5 Whilst good progress has been made in most of these areas, we have been unable to conclude our work in all. In particular, the measurement of transition risk and scenario analysis and the implications of exclusions following ineffective engagement, are areas for further consideration before the 2021 policy review.

4.6 A Responsible Investment workshop was held for the Joint Committee in March where climate change was covered to enable us to take Partner Fund views into the 2020 RI policy review. The consensus was that Partner Funds did not want to set climate change targets or exclusions; the direction of travel was seen as more important.

4.7 Quarterly meetings are held with the Alternatives team looking at ESG with discussions on the role private markets play in the energy transition, carbon measurement challenges and ESG reporting. Investments have been made in 'new economy' themes of technology, healthcare and renewable energy via our private equity and infrastructure portfolios. Carbon measurement is particularly challenging for this asset class. We have therefore joined with other asset owners, including other LGPS pools and the Church of England, to look at how we can report across private markets.

4.8 We currently have no restrictions or exclusions regarding sectors or specific stocks. Exclusions and divestment, in certain cases, eliminate the ability for us to drive change within a company. Partner Funds, due to having passive mandates and legacy assets, may not be able to fully adopt the Border to Coast policy if an exclusion clause was added. Externally managed mandates have not been set up with restrictions in place. The investment implications of red lines and exclusions for companies not sectors, will be considered ahead of next year's review.

4.9 Considerable work has been done to embed and enhance climate analysis into the investment process, as captured in the Border to Coast TCFD Report available on our website. This includes conducting carbon footprints on a quarterly basis on listed equity and fixed income portfolios and using the Transition Pathway Initiative Tool to assess portfolio holdings. Work continues in this area.

[2] 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.

4.10 We continue to support and provide training for Partner Funds on climate change and recently held a session covering TCFD reporting. We are continuing to develop reporting and communication with Partner Funds to ensure we meet requirements.

4.11 The move towards asset owners and asset managers committing publicly to being net zero by 2050 is growing. This was discussed at the Board Strategy Day in August, considering how we as a company can pledge and whether Border to Coast can make a pledge to be "net zero by 2050" across our investment portfolios. This is an area for further work ahead of the next policy review. We are in discussion with officers at SYPA, where the Committee has recently made a commitment to being net zero by 2030, to understand how Border to Coast may be able to assist in this challenge.

4.12 In relation to diversity, applying the current voting policy outside the FTSE350 was seen as an area to consider. Last year the Board requested that diversity beyond gender also be taken into account. We have addressed this in the Voting Guidelines through our expectations of companies, but it is more difficult to implement through voting due to the lack of disclosure by companies. This is something that can be better addressed by engagement.

4.13 A workshop was held with the officers of the Partner Funds on 22nd September. The proposed revised policies were shared with officers and feedback and comments were received from South Yorkshire, Cumbria, North Yorkshire and East Riding. Feedback on the RI Policy covered governance, integration and escalation, and on the Corporate Governance & Voting Guidelines included comments on diversity, board evaluation, stakeholder engagement, dividends and climate change. These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the draft policies. Divestment following unsuccessful engagement and specific climate-related exclusions have not been included in this review as work will be undertaken on these areas ahead of the 2021 Policy Review process.

4.14 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2021 proxy voting season. We have asked Partner Funds to complete their review by the end of 2020 so that we are able to carry out this implementation and disclose our voting intentions to companies prior to the peak season. We have already had feedback from Pensions Officers, but the Pension Committee review process is still to take place.

5 Key changes

5.1 The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. There are several minor amendments including proposed additions and clarification of text. All changes are shown as track changes in the attached Appendix 2.

5.2 Board diversity is a fast-moving area of corporate governance, with some investors publicly setting hard thresholds for female representation. Restricting these thresholds based on company size, for example FTSE350 companies, is no longer considered to be far-reaching enough. Research shows that the benefits of diversity are greatest when female representation is above the 30% level; therefore, applying a 30% expectation would be more in line with stakeholder expectations. It is important to still retain flexibility, especially for emerging markets and Japan, where the expectation is for companies to have at least one female on the board. Rounding the threshold for smaller board sizes is important to maintain feasibility for boards. Our expectations of companies in respect of broader diversity and ethnic minority representation on boards have been included in the Voting Guidelines. This is however more difficult to implement via voting due to the lack of disclosure but is something that can be addressed through engagement with companies.

5.3 On climate change, some minor changes are suggested to the RI policy and Voting Guidelines bearing in mind the comments from Partner Funds at the Joint Committee RI workshop. We expect high emitting companies and those in high emitting sectors to have climate change policies in place meeting certain requirements. If this is not the case, there is the potential to vote against board chairs where no progress is being made. This is also the case for companies rated at zero or one by the Transition Pathway Initiative[3] (TPI). There is also reference to the use of the TPI toolkit for assessing portfolio holdings and reporting on climate risk through the TCFD report.

5.4 Changes to the Corporate Governance & Voting Guidelines are summarised below.

Section	Page	Type of Change	Rationale
Diversity	5	Addition / clarification	Rewording and increasing scope of approach.
Re-election	5/6	Addition / clarification	Board member election using majority voting standard.
Board evaluation	6	Addition	Assess skills.
Stakeholder engagement	6	Addition	Company response where significant votes against received.
Directors' remuneration	6/7	Clarification Addition	Rephrasing. Greater detail on ESG incorporation in exec pay.
Annual bonus	7	Addition	Deferral of portion of short-term bonus.
Political donations	9	Clarification	Oppose political donation proposals.
Dividends	10	Addition	No publicly disclosed capital allocation strategy.
Virtual shareholder General Meetings	11	Addition	Loosen current approach but need to safeguard shareholder participation.
Shareholder proposals	12	Addition	Expand text to include types of proposal we would usually support.
Climate change	12	Addition	Vote against Chair if high emitting company with TPI score of zero or 1.

5.5 The last two reviews have seen the RI policy develop substantially to satisfy future PRI reporting requirements and take account of SRD II requirements which are incorporated into the FRC's rule changes. This year there are several minor additions and amendments but no substantial changes. All changes are shown as track changes in the attached Appendix 1.

[3] 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. Companies are assessed to one of 5 levels based on their position in relation to the recognition and management of transition risks.

5.6 The amendments to the RI policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
1. Introduction	2	Clarification	Implementation of policy.
1.1 Policy framework	2/3	Addition	Policy framework context (with thanks to SYPA).
5. Integrating RI into investment decisions	4	Addition Addition	Biodiversity. Text explaining 'overarching principles' apply to all asset classes.
5.1 Listed equities – internally managed	4	Clarification	Extra text to clarify process.
5.2 Private markets	5	Addition	Monitoring ESG policies and encourage improvement.
5.4 External manager selection	5 5	Addition Addition	Extra detail on expectations. PRI Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
5.5 Climate change	6/7	Addition Addition Addition Addition	Reference to climate risk reporting via TCFD report. Use of Transition Pathway Initiative (TPI). Vote against Chair where rated zero or 1 by TPI. Private market investment themes.
6. Stewardship	7	Addition	Extra clarification text. Commitment to 2020 UK Stewardship Code.
6.1 Voting	7	Addition	Clarification on split voting circumstances - clear rationale from Partner Fund.
6.1.1 Use of proxy advisers	8	Clarification Clarification	Monitoring of Robeco. Updated text on share blocking.
6.2 Engagement	9/10	Addition Addition Addition	Input into Robeco process for new themes. Include OECD Guidelines breaches. Sharing engagement information.
9. Training and assistance	11	Addition	Training for Investment Team, Board and Joint Committee.

5.7 The proposed changes to the climate change section in the RI policy at 5.5 are minor. It is proposed that climate change be broken out as an appendix or standalone policy. This will require substantial work and is not something that can be done in the time constraints of this policy review.

5.8 An increasing number of asset owners and asset managers are publishing separate documents defining the approach taken to climate change. This includes Brunel Pension Partnership, Local Pensions Partnership and NEST. South Yorkshire

Pensions Authority also have a separate climate policy, which references not investing in pure coal and tar sands and that SYPA will 'seek to use its influence within the wider Border to Coast Partnership to secure the agreement of appropriate goals for reducing the carbon intensity of portfolios'. We note that this is a long-standing policy and whilst not written into Border to Coast's policy, Border to Coast does not currently hold any such investments.

5.9 The policies are to be presented to the Board on 2nd November with the recommendation to approve the revisions. There is then a period where Partner Funds take the revised policies to their committees to begin their internal process of alignment. The revised RI Policy and Corporate Governance & Voting Guidelines will be effective from 1st January 2021.

6 Work to be undertaken in 2021

6.1 The following pre-work will be undertaken ahead of the 2021 Policy Review process:

- The development of a standalone climate change policy
- The measurement of transition risk and the implications of setting targets, including the potential to set a net zero carbon target
- The role of private markets in managing transition risk
- Implications of an exclusion policy if engagement is ineffective

6.2 We will also continue to develop our communication approach to enable Partner Funds and other important stakeholders to understand and oversee Border to Coast in carrying out our responsible investment remit.

7 Financial implications

7.1 Financial implications are in respect of implementation and fulfilment of the policies. The cost of the external voting and engagement provider and RI initiatives are included in our approved budget. There may be additional spend in relation to ESG data providers, consulting support and ongoing training and development of colleagues.

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 RI commitment.

8.2 Commitment to RI is becoming increasingly important to the Partner Funds. To maintain collective policies and the strong voice this gives us, we need to ensure that Partner Funds are supportive of Border to Coast's approach.

8.3 There is the risk that the current climate change section of the RI policy is too high level and does not meet Partner Fund expectations in this area. A standalone policy is to be developed outside the normal policy review cycle.

9 Conclusion

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

10 Author

Jane Firth, Head of RI, jane.firth@bordertocoast.org.uk, 14 November 2020

11 Supporting Documentation

Appendix 1: Draft Border to Coast Responsible Investment Policy
Appendix 2: Draft Border to Coast Corporate Governance & Voting Guidelines

Important Information

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

Appendix A

Responsible Investment Policy

Border to Coast Pensions Partnership

November 2020
~~November 2019~~

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

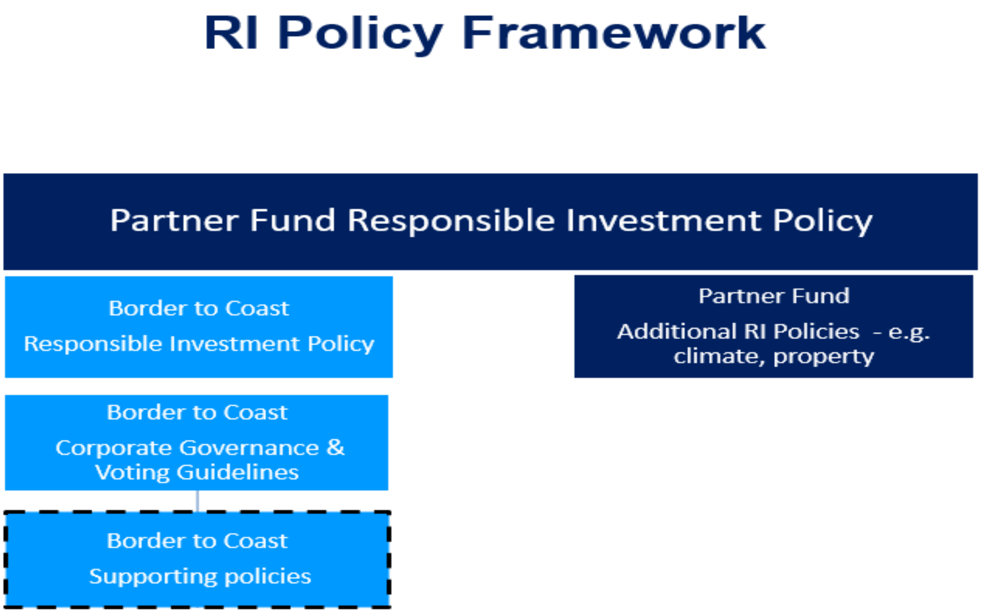
Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its ~~twelve~~ eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will ~~therefore,~~ hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

1.1 Policy framework

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the **website**). Border to Coast has ~~a~~ dedicated staff resources for managing RI within the organisational structure.

The RI Policy ~~is jointly~~ is owned by Border to Coast ~~owned~~ and created after collaboration and engagement with our eleven ~~twelve~~ Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast ~~will~~ considers material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change	Human rights	Board independence/ diversity	Business strategy
Resource & energy management	Child labour	Executive pay	Risk management
Water stress	Supply chain	Tax transparency	Cyber security
Single use plastics	Human capital	Auditor rotation	Data privacy
Biodiversity	Employment standards	Succession planning	Bribery & corruption
		Shareholder rights	~~Single use plastics~~
			Political lobbying

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class ~~and capability~~, the overarching principles outlined in this policy are applied to all internally and externally managed assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed e~~E~~quities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI ~~will~~ works with colleagues to ensure they are knowledgeable and fully informed ~~raise awareness~~ on~~of~~ ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase and maintain knowledge, and portfolio managers will be involved in the voting process.

5.2. Private m~~M~~arkets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast ~~will~~ takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process~~will be considered as part of the due diligence process~~ for all private market investments.

- A manager's ESG strategy is~~will be~~ assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are~~will be~~ requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring ~~will~~ includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. Fixed i~~I~~ncome

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis is~~will~~ therefore ~~be~~ incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data is~~will be~~ used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is~~will be~~ used to determine a bond's credit quality. Information is~~will be~~ shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External m~~M~~anager s~~S~~election

RI ~~will be~~ is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP ~~will~~ includes specific ~~reference~~ requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. We will encourage managers to become signatories to the UN-supported Principles for Responsible Investment. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes.

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

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

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

Border to Coast is:

- Assessing its portfolios in relation to climate change risk where practicable.
- Incorporating climate considerations into the investment decision making process.
- Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.
- Encouraging companies to adapt their business strategy in alignment with a low carbon economy.
- Supporting climate related resolutions at company meetings which we consider reflect our RI policy.
- Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Using the Transition Pathway Initiative (TPI)[2] toolkit to assess companies and inform company engagement and voting.
- Voting against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.

[1] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions. https://www.fsb-tcfd.org/publications/finalrecommendations-report/

[2] 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.

- Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitoring and reviewing ~~its~~ our fund managers in relation to climate change approach and policies.~~,~~
- Participating in collective initiatives collaborating with other investors including other pools and groups such as the Local Authority Pension Fund Forum (LAPFF).
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).
- Reporting on the actions undertaken with regards to climate change on an annual basis in ~~its~~ our TCFD report.
- Key investment themes pursued by the private markets team include Energy Transition opportunities which support the move to a lower carbon economy.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It ~~will~~ practices active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are a signatory to the UK Stewardship Code[3] and are committed to being a signatory to the 2020 Code; we are also a signatory ~~the~~to the UN - supported Principles of Responsible Investment[4].

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund ~~wishes~~ may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1 Use of proxy advisers

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies.

[3] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx

[4] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is~~will be~~ required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

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

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies ~~depositing~~ to deposit their shares ~~shortly~~ before the date of the meeting (~~usually one week~~usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold ~~until after the meeting has taken place~~; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may ~~abstain~~ refrain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

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

- Border to Coast and all ~~twelve~~ eleven Partner Funds are members of the ~~Local Authority Pension Fund Forum (~~LAPFF~~)~~. Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.
- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.
- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[5] breaches or OECD Guideline for Multinational Enterprises breaches[6]~~.~~
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

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

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

[5]UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

[6] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact P~~p~~rinciples or OECD G~~g~~uidelines for~~ m~~ Multinational ~~e~~Enterprises. Both sets of principles~~,~~ cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART[7] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the investment team have access to our engagement provider's Active Ownership profiles and engagement records. This additional information feeds into the investment analysis and decision making process

We ~~will~~ engage with regulators, public policy makers, and other financial market participants as and when required. We ~~will~~ encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

6.2.1. Escalation

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

6.3. Due d~~D~~iligence and monitoring procedure

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

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

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

[7] SMART objectives are: specific, measurable, achievable, relevant and time-bound.

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We ~~wil~~also ~~bevoluntari~~report~~ing~~ in line with the TCFD recommendations.

9. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

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

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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

~~November 2019~~
November 2020

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast.~~ This will generally be where it holds a declarable stake or is already engaging with the company~~. In some instances, attendance at AGMs may be required.

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

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

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

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chair~~man (he or she)~~ is distinct from that of other board members and should be seen as such. The Chair~~man~~ should be independent upon appointment and should not have previously been the CEO. The Chair~~man~~ should also take the lead in communicating with shareholders and the media. However, the Chair~~man~~ should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair’s performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair~~man~~ and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 30% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognis~~z~~ing varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case.

~~In line with the government-backed Davies report and the Hampton-Alexander review we will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.~~

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chair~~man~~ or Senior Independent Non-executive Director except when it is appointing the Chair~~man~~'s successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with ~~the~~ issues such as~~of~~ stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received ~~significant~~ 20% votes against a proposal ~~–~~ at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that ~~the link between~~high executive pay ~~and company performance is negligible~~does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report ~~(other than those for investment trusts)~~ should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate ~~.~~ unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we would expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, –support resolutions requesting additional reporting on material business risk, ESG topics, climate risk and lobbying.

Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit to assess our listed equities investments. TPI enables assessment of how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

[2] 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.

Border to Coast Pensions Partnership Joint Committee

Date of Meeting: 24 November 2020

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

Report Sponsor: Border to Coast CIO – Daniel Booth

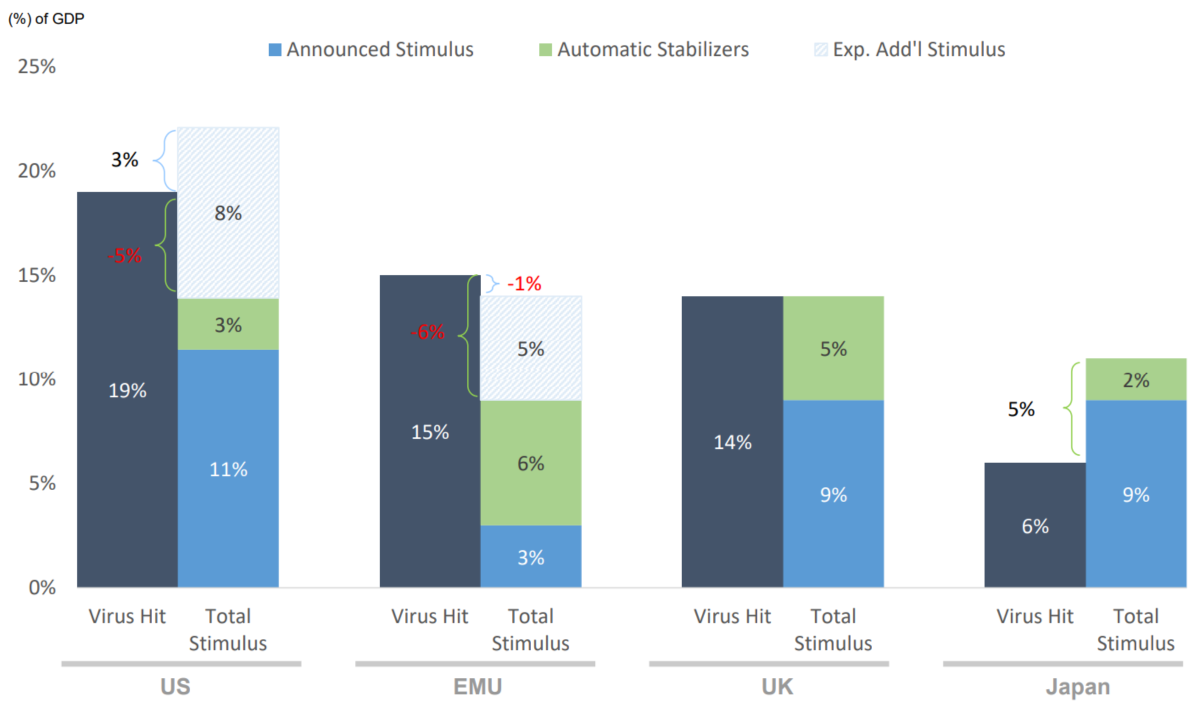
1 Executive Summary

1.1 This report provides an overview of 2020 market performance, high level details on fund performance and the broader macroeconomic environment.

2 Macroeconomic Environment

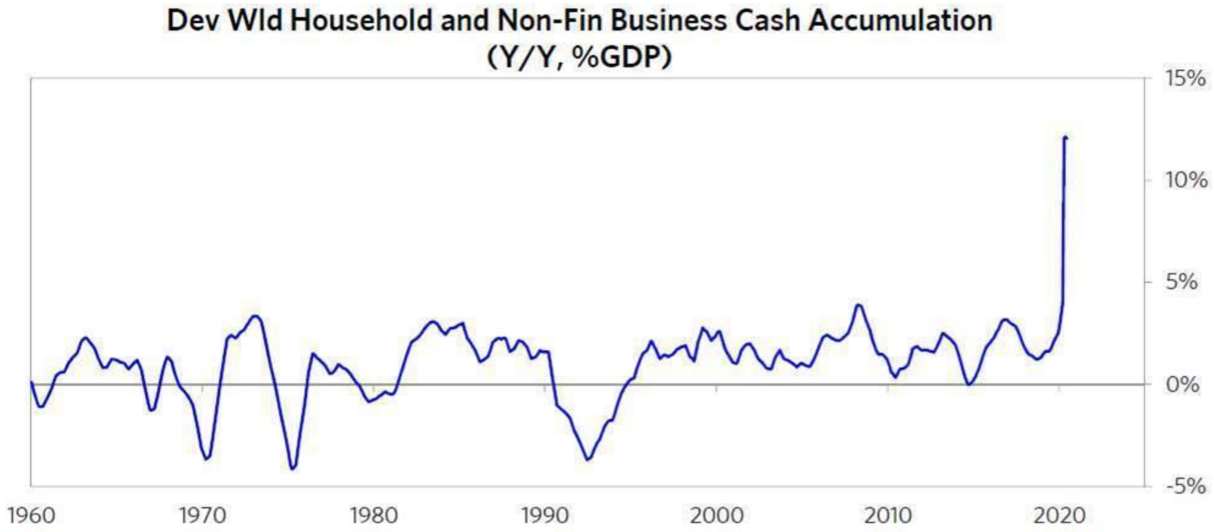
2.1 COVID crisis caused a collapse in the expected Growth and Inflation outlook with a reduction in market liquidity and expanding risk premiums. Authorities responded with large scale monetary and fiscal easing injecting liquidity into the system leading to a fall in interest rates and contracting risk premiums (rising asset prices). The combination of automatic stabilizers (existing unemployment benefits), announced stimulus (UK furlough programs or US national unemployment additions) and future expected stimulus will broadly offset weakness caused by the virus:

G4 Fiscal Response Exceeding the Growth Hit from COVID-19



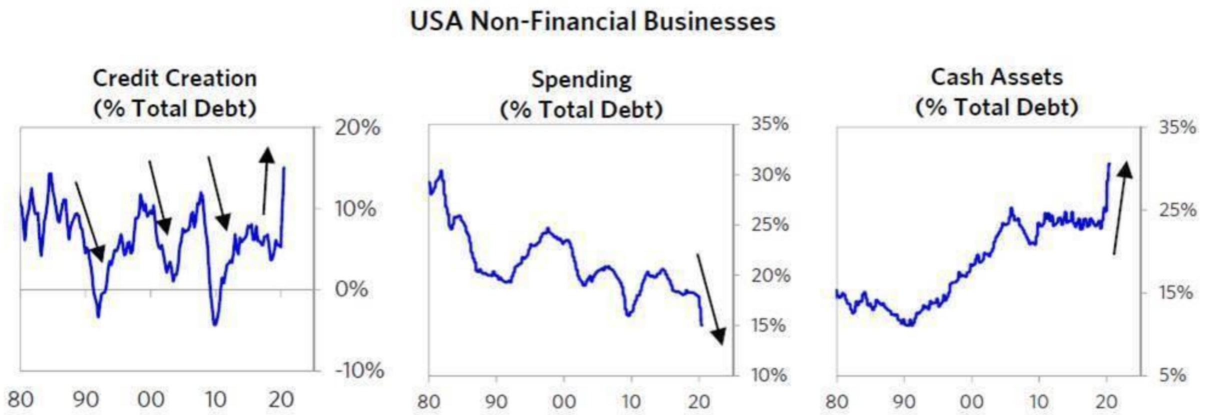
Source: Morgan Stanley

2.2 Money distributed by governments has replaced lost incomes (and in some cases such as US exceeded amount of lost income). Seen an enforced reduction in spending that has led to a rising household Saving Rate (with building cash balances) with current developed world household cash balances equal to 12.5% of GDP (5x normal level). It is typical for cash balances to increase during a recession, but the magnitude of this cash build-up is atypical as can be seen below. The future liquidation of this excess cash could act as a future stimulus.



Source: Bridgewater

2.3 Global Government programs have enabled easy credit availability, so companies have increased borrowing at the same time as they've been cutting spending, so the additional borrowing has just seen an offsetting increase in corporate cash balances. So effectively we've seen an increase in corporate credit creation, a reduction corporate spending and an increase in corporate cash holdings.



Source: Bridgewater

2.4 Virus caused an acute liquidity crisis that led to policy response (much faster, larger and broader than prior responses) opening up the credit markets (with spreads contracting rapidly within weeks) and the stimulative monetary and fiscal policy leading to rising household incomes and corporate credit creation, which both typically contract during a recession. In addition to the large stores of cash (on both household and corporate balance sheets), we are likely to see ongoing Monetary and Fiscal stimulus, which when combined with low inventory levels and an expectation of economic normalization in 2021 could create a powerful dynamic.

3 Market Performance

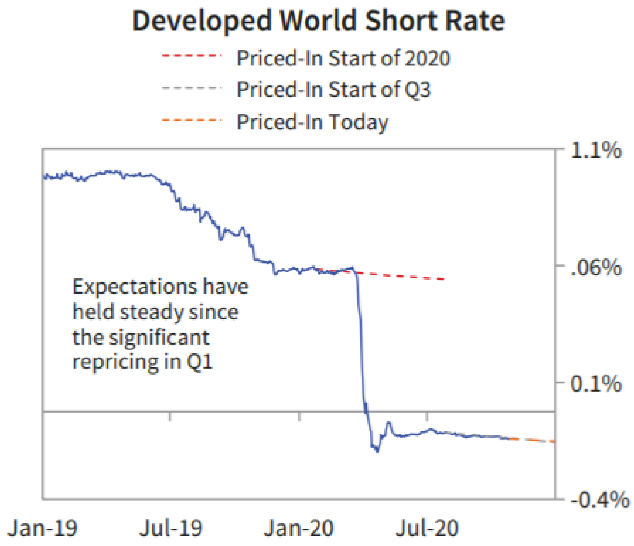
3.1 As of 3Q 2020 global equities (+2.3%) delivered a marginal positive return with the US S&P 500 outperforming the UK and EU markets. Global Government bond indices registered strong positive gains, with the positive interest rate impact supporting Investment Grade credit returns. Higher yielding credit spreads remain wider than pre-COVID levels whilst mixed commodity performance with drawdown in oil (weaker near-term demand) but rally in Gold (store of wealth).

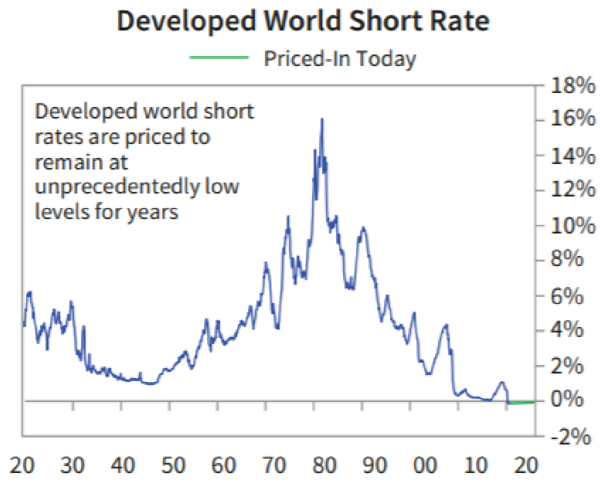
Asset Class	Passive Total Return* Scaled to 16% Volatility Q1 & Q2 2020	Q3 2020	YTD
Equities			
Global (Unhedged)	-5.4%	8.1%	2.3%
US Large Cap (S&P 500)	-3.1%	8.9%	5.6%
US Large Cap Growth (Russell 1000 Growth)	9.8%	13.2%	24.3%
US Large Cap Value (Russell 1000 Value)	-16.3%	5.6%	-11.6%
US Small Cap (Russell 2000)	-13.0%	4.9%	-8.7%
Germany	-5.3%	4.6%	-1.0%
France	-13.8%	-0.7%	-14.4%
Italy	-15.3%	-0.9%	-16.1%
Spain	-20.9%	-6.3%	-25.9%
Japan	-5.9%	5.2%	-1.1%
UK	-16.9%	-3.3%	-19.6%
China	3.2%	11.5%	15.1%
Canada	-4.9%	4.7%	-0.4%
Australia	-10.3%	0.3%	-10.1%
Emerging Markets Ex-China (Unhedged)	-16.3%	7.8%	-9.1%
Government Bonds			
US	26.1%	1.0%	27.4%
Germany	6.9%	1.0%	8.0%
Japan	-0.1%	0.4%	0.3%
UK	12.9%	-0.8%	12.0%
Canada	24.0%	-0.2%	23.7%

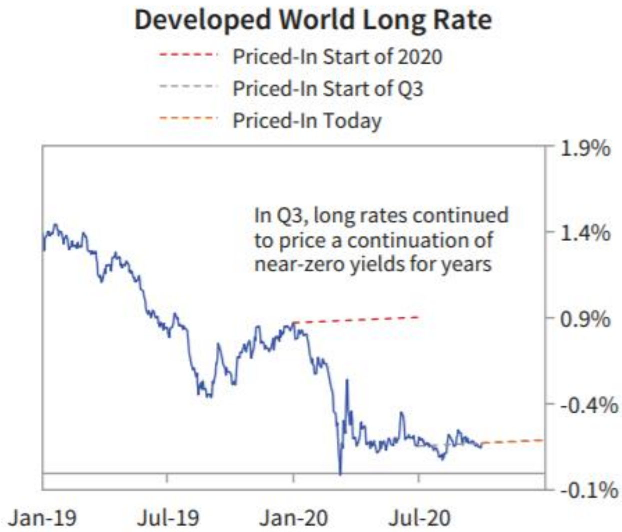
Asset Class	Passive Total Return* Scaled to 16% Volatility Q1 & Q2 2020	Q3 2020	YTD
IG Corporate Spreads			
US	-0.2%	-0.3%	-0.5%
Europe	-0.2%	0.7%	0.5%
High-Yield Corporate Spreads			
US	-14.8%	4.9%	-10.6%
Europe	-4.3%	1.1%	-3.2%
Sovereign Spreads			
Europe	-0.1%	2.4%	2.3%
Basket of Emerging Markets	-9.4%	1.8%	-7.8%
Bond Aggregates (Bloomberg)			
US	22.7%	2.1%	25.2%
Global	13.4%	2.5%	16.2%
Commodities			
S&P-GSCI Commodity Index	-20.2%	2.4%	-18.2%
Bloomberg Commodity Index	-18.2%	8.2%	-11.5%
Crude Oil	-14.8%	0.7%	-14.3%
Gold	16.6%	3.7%	20.9%
Industrial Metals	-7.6%	9.0%	0.7%

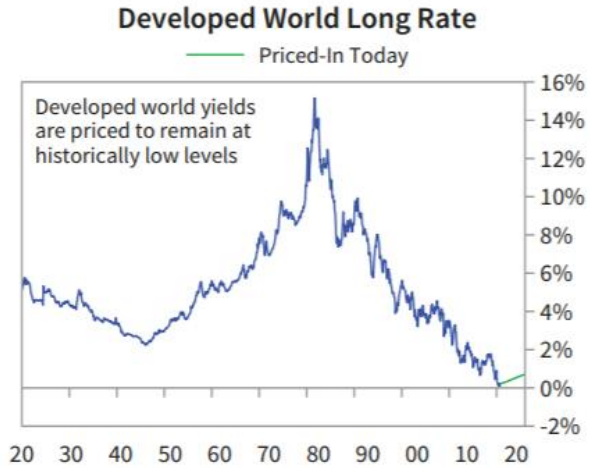
Source: Bridgewater

3.2 Developed World short-term interest rates were low and expected to remain unchanged at the beginning of 2020. The COVID crises caused a decline in short term interest rates which are now globally at flat to negative levels. Developed World long-term interest rates (bonds) were also priced to remain unchanged at low levels but with lower interest rates and central bank purchases (quantitative easing) yields have declined toward lower 0% bound. These are both shown in the graphs overleaf:



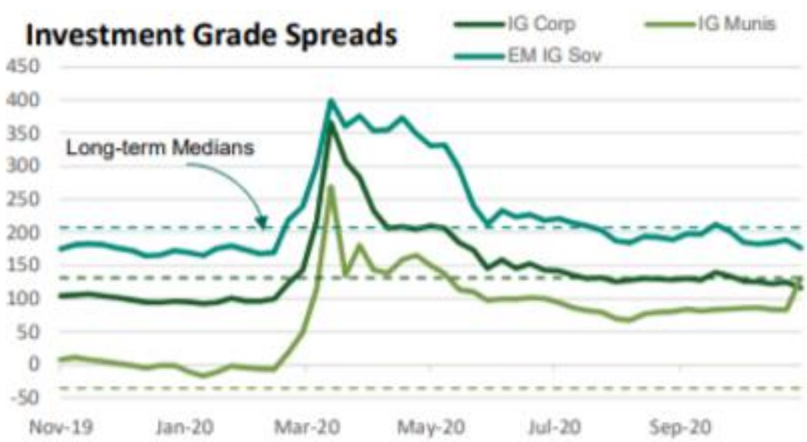






Source: Bridgewater

3.3 Higher yielding credit markets have recovered most but not all YTD spread widening:



Source: Goldman Sachs

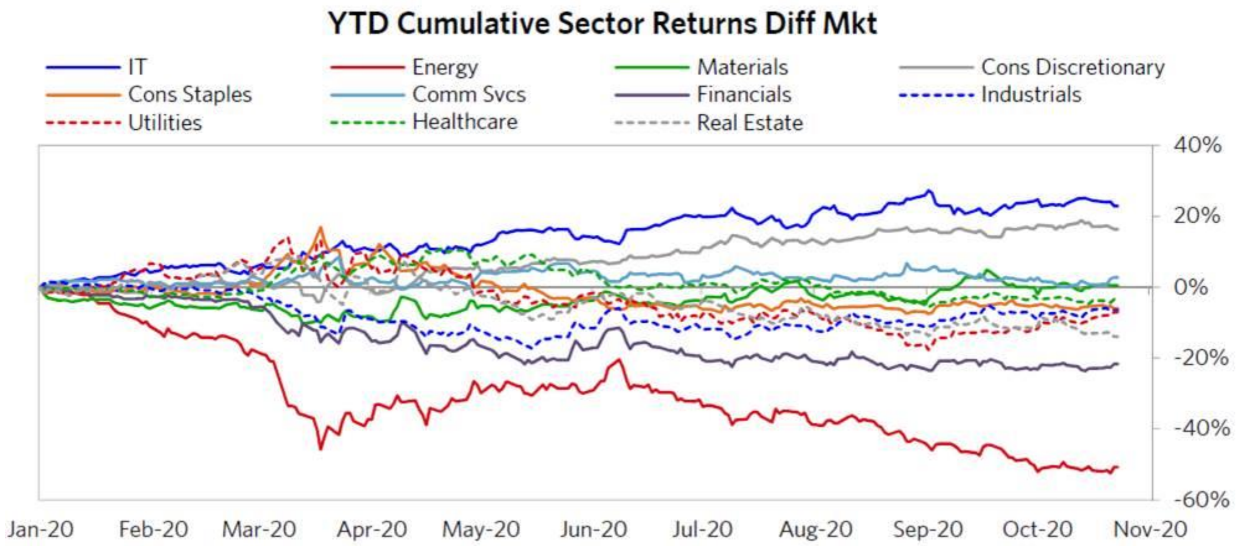
3.4 Equities S&P earnings held up better than expected. After 2/3rd of S&P 500 companies reported 3Q earnings, 19% of companies beat consensus with reported earning declining -7% yoy (vs -22% expected). Furthermore 13% of corporates raised future guidance (a new record).

Source: Goldman Sachs

3.5 Year to date there has been a 30-point performance differential between Russell Growth index (high priced faster growing companies) and the Russell Value index (low priced slower growing companies):

Source: Bloomberg

3.6 Equity markets seen large sector differentials between the top performing sector (Information Technology +20%) and the worst performing sectors (Financials -20% & Energy -50%):



Source: Bridgewater

4 Fund Performance

4.1 The table below shows our fund relative performance (versus benchmark) up until the end of Sept 2020 for the 4 underlying funds with a track record of at least 12 months:

Fund Name	QTD (%)			1 Year (%)			ITD (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
Internal Equity	-0.11	-0.18	0.07	-6.41	-7.66	1.25	-0.6	-1.73	1.13
UK Listed Equity Fund	-2.78	-2.92	+0.14	-15.12	-16.59	+1.47	-5.74	-7.28	+1.54
Overseas Developed Equity Fund	2.94	2.42	+0.52	5.21	3.22	+1.99	6.43	5.13	+1.30
Emerging Markets Equity Fund	1.91	4.00	-2.09	0.37	3.52	-3.15	5.43	8.33	-2.89
External Equity									
UK Listed Equity Alpha Fund	0.47	-2.92	+3.40	-12.85	-16.59	+3.74	-1.13	-3.37	+2.23

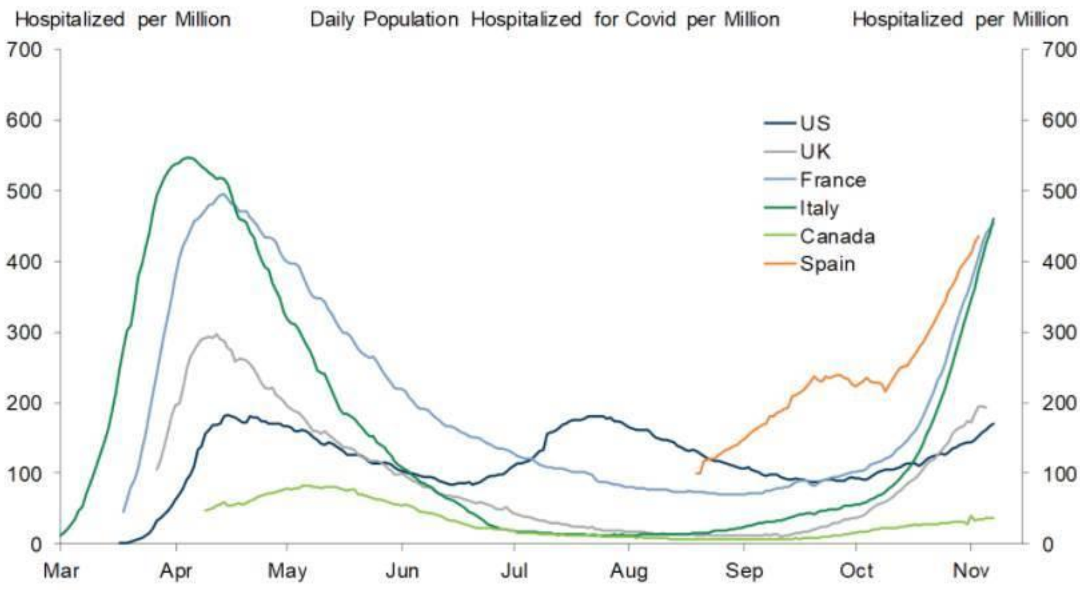
4.2 Internal Equity composite (asset-weighted) has delivered 1.13% outperformance over benchmark (target +1%) since launch. 5 of 6 internal PMs have outperformed with the majority of excess returns driven by stock selection (high quality return) and achieved with a low tracking error (and a high risk-adjusted return). Our Emerging Market fund has underperformed year-to-date with a material contribution due to not owning smaller Chinese technology stocks which have performed strongly. The planned transition to a hybrid structure with China managed externally is due late 1Q 2021 and will enable superior coverage of the Chinese market which is becoming a hub for technology innovation.

4.3 External Equity our UK Listed Equity Alpha fund has delivered +2.23% outperformance and is back above target level (benchmark +2%) following 1Q 2020 drawdown. The earlier underperformance was due to combined weakness across Value, Small Cap and Consumer Services stocks with the latter 2 having recovered by the end of September.

4.4 It should be noted that we are also managing Global Equity Alpha (Nov-19) in external equities, UK Investment Grade Credit fund (Mar-20) and Sterling Inflation Linked Bond fund (Oct-20).

5 CoVid Update

5.1 As of early November COVID, hospitalized cases per million have been increased especially in Eurozone countries:



5.2 On Monday 9th November Pfizer announced initial trail results were pleasing and that they expected emergency usage authorization (EUA) to be granted.

6 Conclusion

6.1 The liquidity induced recovery has seen equities rally, credit spreads normalize and interest rates decline. Investors are likely underestimating the probability of a 2021 strong recovery financed by a liquidation of excess cash holdings, in an environment of easy monetary and fiscal policy, and the continued compression of risk premiums as investors search for yield.

6.2 The authorities are likely to want to stimulate economies further by lowering real interest rates and with nominal interest rates at lower 0% bound they can do this by increasing inflation and inflation expectations. The US Fed Reserve move to an inflation averaging regime is a clear indication of this direction. 2021 inflation outlook will be distorted upwards by the low 2020 base impact and thereafter the competing demands of inflationary policies and the output gap will determine the longer-term outcome. LGPS with long-dated inflation linked liabilities should be mindful of the longer-term inflation risk and potential impact on both their assets and liabilities.

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15th November 2020

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