



Minutes of the Border to Coast Joint Committee Tuesday 24 November 2020 - Virtual Meeting

Present

Members

Councillor Tim Evans (Chair)
Councillor David Coupe, Councillor Mark Davinson,
Councillor Jane Evison, Councillor Wilf Flynn, Councillor
John Horner, Councillor Doug McMurdo, Councillor Patrick
Mulligan, Councillor Mick Stowe, Councillor Eddie Strengiel
and Councillor Mel Worth

Nicholas Wirz and Deirdre Burnet (Scheme Member
Representatives)

Border to Coast Ltd Representatives

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

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

Fund Officers

Amanda Alderson, Paul Audu, Ian Bainbridge, Alison Clark,
Paul Cooper, Neil Mason, Victoria Moffett, Tom Morrison,
Nick Orton, Jo Ray and Gill Richards

Statutory Officer Representative(s)

George Graham

Apologies were received from

Councillor Eileen Leask and Andy Watkins

1 APOLOGIES/DECLARATIONS OF INTEREST

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

It was requested that best wishes be sent to Cllr Leask for her recovery from illness and condolences on the death of her husband. Cllr Walsh agreed to pass this on.

There were no declarations of interest.

2 MINUTES OF THE MEETING HELD ON 1 OCTOBER 2020

It was noted that N Wirz was recorded as having sent apologies when in fact he was present.

RESOLVED – That, subject to the amendment above, the minutes of the meeting held on 1st October 2020 be agreed as a true record and signed by the Chair.

3 JOINT COMMITTEE MEETING ARRANGEMENTS - IAN BAINBRIDGE

A report was considered which gave details of changes to the approach of operating the Joint Committee.

Members were reminded that at the Joint Committee meeting on 1st October officers had been asked to consider potential changes and discuss options with the Chair. This had been done and the proposed changes, which had been implemented for this meeting, were:

- An enhanced Funds only session prior to each Joint Committee meeting where any issues could be discussed at length and identify any issues to be brought out at the formal meeting of the Committee.
- To move the Border to Coast performance reports to the private part of the meeting to ensure that issues of concern could be fully debated and problem managers and potential action discussed.
- Officers from the Funds would introduce and make comments on the performance reports rather than Border to Coast.

The changes had been discussed at length at the Funds only meeting prior to the Joint Committee and it had been agreed that the changes were an improvement and also that adjustments could be made if necessary.

Members were asked to provide feedback on the new arrangements to officers at the end of the meeting; any issues would be discussed at the Officer Operations Group.

RESOLVED – That the report be noted.

4 COVID-19

No new issues were reported.

5 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE

The Committee considered the 2020/21 Joint Committee budgetary position.

RESOLVED – That the report be noted.

6 RESPONSIBLE INVESTMENT POLICIES REVIEW - RACHEL ELWELL

A report was submitted which presented the annual review of the Responsible Investment Policy and the Corporate Governance and Voting Guidelines.

Members were reminded that the 2019 review had identified a number of areas for further development during 2020. A Responsible Investment workshop had been held in March 2020 to seek Partner Funds' views on the areas to build into the 2020 review:

- With regard to climate change, the consensus had been 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 reflected that position, however it was noted that SYPA had recently set a goal of making its portfolios carbon neutral by 2030.
- The Board had requested that diversity beyond gender be considered. It was noted that voting on wider diversity matters would continue to be difficult where there was insufficient data, however an update to the wording in the RI policy had been suggested, indicating the intent to engage in this area.

A seminar had also been held the previous week to discuss the revisions in depth.

Scheme member representative D Burnett commented that she had not been invited to last week's seminar and would like to be involved in any future events. She also welcomed the planned stand-alone Climate Change Policy.

The Committee discussed concerns regarding not setting a target for reducing carbon emissions and the possible consequences of this, the importance of remembering that Responsible Investment was not just about climate change and that there were other factors involved such as how companies treated their employees, the importance of fiduciary duty and also engagement rather than divestment and the difficulty of Border to Coast producing policies that all Partner Funds were happy to sign up to.

R Elwell commented that at the moment there did not appear to be conflict between the Partner Funds and all appreciated that there was a lot of hard work to be done in this area.

J Firth updated the Committee on the work being done to develop the Climate Change Policy including scenario analysis, metrics and targets.

In answer to a question, J Firth informed the Committee that Border to Coast's intention to vote against the Chair of the Board of a company in a high emitting sector that had not been making progress in the climate change area had been included in the Voting Guidelines to make Border to Coast's stance in this area clear.

CIO D Booth made the following observations:

- Two thirds of public companies did not report carbon related data at this stage and private company reporting levels were even worse.
- Care needed to be taken regarding unintended consequences. If simple methodologies were adopted of excluding high carbon emitting companies this could result in selling companies that were committed to change and targets.
- If Border to Coast divested from the oil and gas or other sectors with heavy carbon footprints, then it would not reduce emissions (or climate change) but rather simply shift the emissions onto another investor who may be less engaged and therefore reduce the pressure on such companies to change. Border to Coast was considering the optimal solutions for managing climate change risk in their internally managed funds and further information would be shared with investors later in the year.

Cllr D McMurdo expressed concern that the polices were not strong enough and was looking to see how the Climate Change Policy would develop.

N Wirz supported the move for diversity beyond gender.

RESOLVED – That the Committee:

- i) Had reviewed and commented on the proposed revisions to the Responsible Investment Policy at Appendix 1 and the Corporate Governance and Voting Guidelines at Appendix 2.
- ii) Supports taking the revised policies to Pensions Committees for comment and for them to consider adoption of the principles in their own Responsible Investment policies in line with industry best practice.
- iii) Notes the proposed areas for future development in Section 6 of the report.

7 **SUMMARY OF INVESTMENT PERFORMANCE AND MARKET RETURNS - DANIEL BOOTH**

A report was submitted which provided an overview of 2020 market performance, high level details on fund performance and the broader macroeconomic environment.

RESOLVED – That the report be noted.

Exclusion of the Public and Press

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in

paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

8a UK LISTED EQUITY FUND - NICK ORTON

The Committee considered a report which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over Q3 2020.

It was noted that performance was broadly in line with the benchmark over the quarter and continued to meet the performance objective over longer periods.

The Fund's outperformance of the benchmark during the quarter had been due to the following factors:

- Bias towards quality companies with relatively strong balance sheets and resilient business models.
- Overweight to sector specialist funds.
- Strong stock selection in Resources, Industrials and Consumer, partly offset by weaker selection in Financials.

The report contained details of the top and bottom contributors to performance over the quarter and the most significant overweight and underweight allocations at a sector level, relative to the benchmark at the quarter end.

RESOLVED – That the report be noted.

8b OVERSEAS DEVELOPED EQUITY - TOM MORRISON

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

It was noted that overall fund performance was above its target over Q3 2020 and was above benchmark since inception.

The Fund had continued to benefit from the recovery in equity markets supported by extensive monetary and fiscal stimulus. However, it was noted that markets were noticeably weaker towards the end of the quarter as a result of a rise in Covid-19 cases and the reintroduction of some lockdown measures.

The report detailed the reasons for the continued outperformance. The Committee noted that it was unlikely there would be material changes to portfolio positioning in the short term and the Fund would continue to focus on long term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility.

RESOLVED – That the report be noted.

8c EMERGING MARKET EQUITIES - GEORGE GRAHAM

The Committee considered a report which summarised the performance and activity of Border to Coast Emerging Markets Equity Fund over Q3 2020.

Members were informed that performance was below the benchmark for Q3 2020 and was below the benchmark and target since inception.

The key theme affecting the Fund during the quarter was the continued outperformance of the Technology and Consumer Discretionary sectors and the continued underperformance of the Energy and Financials sectors.

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

It was noted that the Fund would continue to focus on long term fundamentals and it was unlikely that there would be any material change to the Fund's construction in the short term prior to the change to the EM Hybrid fund.

RESOLVED – That the report be noted.

8d UK LISTED EQUITY ALPHA - VICTORIA MOFFETT

A report was submitted which summarised the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q3 2020.

The Committee was informed that the Fund's performance bounced back over Q3 and was now above benchmark since inception. Members noted the underlying manager performance, net of fees, to the quarter end which was detailed within the report.

UK equity market performance during Q3 had been weak, mostly driven by consumer-facing companies which continued to be impacted by Covid-19. Aside from Covid-19, volatility in the UK stock market over the rest of 2020 would be affected by such risks as the deadline for the Brexit deal. Longer term there was confidence in the Fund's positioning

RESOLVED- That the report be noted.

9 GLOBAL EQUITY ALPHA PERFORMANCE REVIEW - DANIEL BOOTH

A report was submitted which provided an update on the performance and risk of the Global Equity Alpha Fund following its launch in October 2019. Members noted that a full annual review would be brought to the Joint Committee in Q1 2021 after four complete quarters for the Fund.

The Committee was informed that given the extreme market conditions resulting from the Covid-19 pandemic, the Fund had suffered material underperformance since inception.

The report included a summary of the investment strategies employed by the managers in the Fund and their performance.

It was noted that Border to Coast had conducted an in-depth review of the Global Equity Alpha fund and remained comfortable with the portfolio construction although this would be reviewed further in the fund's annual review which would be presented in Q1 2021.

RESOLVED – That the report be noted.

10 ASSET TRANSFER PLANNING 2021-24 - RACHEL ELWELL

A report was submitted which considered Border to Coast Asset Transfer Planning 2021-2024.

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

Due to the impact of Covid-19 there had been some delays in the planned launch of certain capabilities which were set out in section 4 of the report.

It was noted that the approach to asset transfer and fund design/launch was last reviewed with the Joint Committee in November 2019. Border to Coast continued to take feedback and learn from each sub-fund launch and were monitoring the progress using the quarterly Management Information (MI) as detailed in section 5 of the report. The MI was shared with both the Board and the Joint Committee on a quarterly basis, allowing assessment of whether Border to Coast was meeting Partner Fund needs and also the extent to which Partner Funds were meeting pooling commitments.

RESOLVED- That the Committee:

- i) Note the outline plan for building investment capabilities over the next three years.
- ii) Note the quarterly management information used to track pooling progress as set out in section 5 of the report.

11 ESG PASSIVE CAPABILITY - RACHEL ELWELL

A report was submitted which outlined the case for building an ESG passive capability.

The report included an ESG Passive market review, analysis of Partner Fund demand, the case for pooling ESG Passive and the risks involved.

RESOLVED – That the report be noted.

12 CEO REPORT - RACHEL ELWELL

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, including an update on plans for property.
- An update from a corporate functions perspective and the expected outturn for the Operating Budget.
- A brief discussion of activity in the world external to pooling.

It was also noted that Covid-19 risks continued to be heightened both in the short-term and longer-term. Responsible Investment also remained a focus which was discussed in section 7 of the report.

R Elwell thanks officers and Partner Funds for their efforts and interactions to make Border to Coast successful.

13 UPDATE ON EMERGING MATTERS - RACHEL ELWELL/FIONA MILLER/IAN BAINBRIDGE

F Miller reported on the collaboration with other pools in the area of tax savings.

CHAIR