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BCPP JOINT COMMITTEE

AGENDA

Venue: **Border to Coast Offices, Toronto Square, Leeds, LS1 2HJ**

Date: **Thursday 30 September 2021**

Time: **9.30 am**

Membership:

Chair:-

Cllr Doug McMurdo — Bedfordshire Pension Fund

Vice Chair

Cllr David Coupe — Teesside Pension Fund

Membership:-

Cllr Mel Worth	Cumbria Pension Fund
Cllr Bill Kellett	Durham Pension Fund
Cllr David Rudd	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Patrick Mulligan	North Yorkshire Pension Fund
Cllr John Mounsey	South Yorkshire Pension Fund
Cllr Nick Harrison	Surrey Pension Fund
Cllr Wilf Flynn	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

12.6	**Sterling Investment Grade Credit (Exemption Paragraph 3)**	137 - 142
*13	**Standing Item - Update on Emerging Matters - Rachel Elwell/Fiona Miller/Ian Bainbridge (For information and discussion) (Exemption Paragraph 3)**	

Minutes of the Border to Coast Joint Committee

Tuesday 9 March 2021 - Virtual Meeting

Present

Members	Councillor Tim Evans (Chair) Councillor Mark Davinson, Councillor Jane Evison, Councillor John Horner, Councillor Wilf Flynn, Councillor Doug McMurdo, Councillor Patrick Mulligan, Councillor Mick Stowe, Councillor Eddie Strengiel and Councillor Mel Worth Deirdre Burnet and Nicholas Wirz (Scheme Member Representatives)
Border to Coast Ltd Representatives	Daniel Booth, Rachel Elwell, Chris Hitchen, Fiona Miller and Tom Sankey Councillor John Holtby, Shareholder non-executive directors on BCPP Ltd's Board of Directors ("Partner Fund nominated NEDs")
Fund Officers	Ian Bainbridge, Alison Clark, Paul Cooper, Neil Mason, Julie McCabe, Victoria Moffett, Tom Morrison, Nick Orton, Jo Ray, Gill Richards and Neil Sellstrom
Statutory Officer Representative(s)	George Graham
Apologies were received from	Councillor Eileen Leask and Councillor Anne Walsh

1 APOLOGIES/DECLARATIONS OF INTEREST

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

The Chair requested that the Committee's best wishes were conveyed to Cllr Leask.

There were no declarations of interest.

2 MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2020

RESOLVED – That the minutes of the meeting held on 24th November 2020 be agreed as a true record.

3 COVID-19

R Elwell reported that staff were still successfully working from home. The return to the office would be done in line with government guidance.

N Wirz commented that, while realising that Teams had been a godsend for transacting business during the restrictions, the Committee's effectiveness was restricted by this means. Whilst recognising that Teams was an effective format for some meetings he hoped that Committee meetings would move away from Teams as soon as was possible.

The Committee discussed the fact that legislation allowing for virtual meetings elapsed at the beginning of May. The situation was still unclear as to whether this would be extended. The difficulties of holding face-to-face meetings under the current restrictions was discussed and also the possibility of hybrid meetings. The situation would be monitored.

4 SCHEDULE OF FUTURE MEETINGS - GEORGE GRAHAM

A report was submitted which set out the proposed schedule of future meetings for the Joint Committee through to the 2023/24 Municipal Year, confirmed the dates previously agreed and also adding a second regular Responsible Investment workshop to enable members to provide early input into the annual policy review cycle.

RESOLVED – That members note the proposed dates for meetings of the Joint Committee and member workshops as set out in the Appendix to the report.

5 ANNUAL ELECTIONS 2021 - GEORGE GRAHAM

A report was considered which set out the process for elections to the following roles:

- Chair and Vice-Chair of the Joint Committee
- Scheme Members Representatives on the Joint Committee
- Non-Executive Director to sit on the Border to Coast Company Board

Members were reminded that the electorate for the Chair, Vice-Chair and Non-Executive Director were the members of the Joint Committee on a one Fund one vote basis, while that for the Scheme Member Representative(s) was drawn from the Scheme Member representatives on the Local Pension Boards, again on a one Fund one vote basis. Each Fund would be invited to nominate a candidate for each role (or to declare that they are not nominating), and provide a supporting statement for any nominated candidate.

As it was unknown at this stage whether meetings in person would be possible in June, it was proposed to conduct the elections by "post". The report suggested that the election for scheme member representatives be undertaken before the June meeting because of their term of office and the remainder immediately after the

June meeting. As in the previous elections the single transferable vote system would be used.

The Committee felt that it would be sensible to extend the terms of office of the current Scheme Member representatives to enable all elections to take place after the June meeting. The Chair, Vice-Chair and Scheme Member representatives would then take office from the September meeting. The Non-Executive Director would take office from October or as soon as practical following FCA approval.

As the Chair, Cllr Evans was standing down in May, the Vice-Chair, Cllr Coupe, would chair the June meeting of the Committee (if re-appointed).

With regard to the Scheme Member representatives, it was decided that the top candidate should serve for three years and the second for two years to allow a regular pattern of election. Going forward Scheme Member representatives would be elected for three-year terms.

Cllr Worth proposed a vote of thanks to Cllr Evans for all his work for the Committee over the past year. This was seconded by Cllr McMurdo.
The Chair thanked the Committee and officers for their support in what had been an interesting and fulfilling experience.

RESOLVED – That the Committee agree:

i) That the election process by “post” as set out in the report be adopted.

ii) That all elections be held after the June meeting of the Committee.

iii) That the Scheme Member representative with the highest number of votes be elected for a three-year term and the second for a two-year term. Subsequently, Scheme Member representatives would be elected for three-year terms.

6 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE

A report was submitted which detailed the 2020/21 Joint Committee budgetary position and proposed a budget for 2021/22.

Members noted that to the end of February 2021 the only item of expenditure for the year was £2,500, this was for external legal advice to the Partner Funds in respect of two pieces of work.

The only other item of expenditure committed at present was in relation to secretariat support to the Joint Committee from South Yorkshire Pensions Authority.

Members noted that, whilst the current spending in 2020/21 would suggest a cut in the budget could be considered, the Joint Committee was still in its early days of operation and future spending requirements could still be identified. It was also considered useful to have an agreed budget at a reasonable level that could cover advice to the Joint Committee and the Funds should this be needed.

It was proposed that the budget for 2021/22 should be retained at £40,000.

RESOLVED – That the Committee:

i) Note the current budgetary position for 2020/21.

ii) Agree a budget of £40,000 for 2021/22.

7 GOVERNANCE CHARTER UPDATE - RACHEL ELWELL

A report was submitted which set out an updated Governance Charter.

Members noted that the following points had been updated:

3.6.1 Section 1: a change to reflect the merger of Northumberland and Tyne and Wear Pension funds in 2020.

3.6.2 Section 2: an update to the strategy section to reflect the 2021-2024 Strategic Plan.

3.6.3 Section 3: an update to the interactions between Border to Coast and Partner Funds.

3.6.4 Section 5.2: the update of Border to Coast's governance charter to reflect changes made to Executive-level governance during 2020.

A tracked-change version of the updated Governance Charter was attached as an Appendix to the report.

RESOLVED – That members approve the proposed changes to the Governance Charter for publication on the Border to Coast and Joint Committee websites.

8 2020 PARTNER FUND SATISFACTION SURVEY - RACHEL ELWELL

A report was submitted which provided the results of the 2020 Partner Fund Satisfaction Survey.

Members were reminded that Border to Coast conduct an annual Satisfaction Survey of the Partner Funds. The survey was conducted in late 2020 and 39 responses were received, with at least three responses from each Partner Fund.

Overall the results were very positive and there was a high level of satisfaction in how Border to Coast were serving its Partner Fund. These included:

- Strong progress against strategic objectives.
- A high level of confidence that if Partner Funds raised an issue or concern it would be dealt with appropriately.

- Border to Coast's effective communication and engagement with key audiences (although issues with the data room remain).
- Close and constructive relationships with Partner Funds.
- A desire for Border to Coast to continue to add more value to its Partner Funds - particularly on Responsible Investment and in investment capabilities.

It was noted that Border to Coast had used the survey to identify areas for further development which had been used to facilitate a discussion with Partner Fund Officers to create a specific action plan to address the feedback received; this was at Appendix 1 to the report.

Good progress had been made on the feedback received from the feedback received in the 2019 survey, a summary was provided at Appendix 2 to the report.

RESOLVED – That members note the results of the Partner Funds Satisfaction Survey.

9 BORDER TO COAST MARKET REVIEW - DANIEL BOOTH

A report was submitted which provided an overview of market and fund performance as well as 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.

10 REAL ESTATE UPDATE - TIM SANKEY

A report was considered which gave a Real Estate update.

The report provided details of recruitment, a Partner Fund workshop. 1:1 meetings with the four Partner Funds with direct portfolios and an Invitation to Tender seeking consultant advice.

Members were informed that the Real Estate Programme had progressed since the June 2020 Joint Committee meeting when the last update had been received and was on schedule.

T Sankey gave a presentation to the Committee which gave details of the investment approach, the plan to transition assets and how Border to Coast's capability would be built.

RESOLVED – That the progress made in the Real Estate programme is noted.

11 LISTED ALTERNATIVES FUND - FUND DESIGN AND PROSPECTUS SUBMISSION - DANIEL BOOTH

A report was considered which covered the design of the proposed Listed Alternatives Fund including the expected fund size, performance and risk targets, benchmark, proposed share class, investment management arrangement, any operating model, regulatory (including portfolio stress testing) or procurement implications and the approach to transition.

RESOLVED – That Members:

i) Note the Listed Alternatives Fund design as set out in the paper, the final details of which would be agreed through the ACS prospectus process.

ii) Agree to delegate review and comment on the proposed changes to the ACS Prospectus to Partner Fund officers.

12 CEO REPORT FEBRUARY 2021 - RACHEL ELWELL

R Elwell presented the CEO report for the period since the last Joint Committee report which included:

- Interactions with Partner Funds.
- A summary of fund performance.
- An update on fund launches.
- An update on progress from a corporate functions perspective and the expected outturn for the operating budget.
- Activity in the world external to pooling.
- Risks, including Covid-19 risks.
- Responsible Investment.

RESOLVED – That the report be noted.

13a UK LISTED EQUITY - NICK ORTON

A report was submitted which summarised the performance and activity of the Border to Coast Listed Equity Fund over Q4 2020.

It was noted that performance was slightly below the benchmark for Q4 but continued to meet the performances objectives over longer periods.

The Fund had been largely able to match the strong performance of the benchmark during the quarter due to the following factors:

- Stronger performance from specialist funds.
- Strong selection and increasing exposure in both the Energy and Financials sectors.

- Strong selection in Consumer Discretionary and Communications Services.

The portfolio had maintained a relatively low risk profile and the sub-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.

13b OVERSEAS DEVELOPED EQUITY - TOM MORRISON

A report was considered which summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q4 2020.

The Committee noted that Fund performance was below its target over Q4 2020 but was above its benchmark since inception.

The Fund had continued to benefit from the recovery in equity markets, supported by extensive monetary and fiscal stimulus. Markets were buoyed by the prospect of vaccine bringing an end to the Covid-19 pandemic and carrying the prospect of an economic recovery; markets had remained firm through the quarter.

RESOLVED – That the report be noted.

13c EMERGING MARKET EQUITIES - GEORGE GRAHAM

A report was considered which summarised the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q4 2020. The Appendix to the report covered Border to Coast's annual review of the Fund.

It was noted that performance was below the benchmark for Q4 2020 and was below the benchmark and target since inception.

The key themes affecting the fund during the quarter were strong performance from the Materials and Financials sectors and the continued outperformance of the Technology sector. The Consumer Discretionary, Healthcare and Communication Service sectors underperformed.

The Fund had a higher risk profile compared to the other internally managed equity funds but was still considered to be relatively low risk for an active Emerging Markets portfolio.

Members were reminded that the Fund would transition to a hybrid fund with the appointment of two external China managers during 2021. The internally managed ex-China portfolio would continue to focus on long term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility, with a tilt towards value.

RESOLVED – That the report be noted.

13d UK LISTED EQUITY ALPHA - NEIL MASON

The Committee considered a report which summarised the performance and activity of the Border to coast Listed Equity Alpha Fund over Q4 2020. The Appendix to the report covered Border to Coast's annual review of the Fund.

It was noted that the Fund was above benchmark for the quarter and was above its benchmark and performance targets since inception.

The fourth quarter of 2020 had been positive for financial markets as investors took the emergence of effective Covd-19 vaccines as the beginning of the end of the pandemic. Equity markets reacted strongly with the FTSE All Share Index returning +12.6% over the period. The Fund continued to perform strongly, outperforming the benchmark index by around 4.1%, taking relative returns since the Fund's inception to +3.9% pa.

RESOLVED – That the report be noted.

13e GLOBAL EQUITY ALPHA - PAUL COOPER

A report was submitted which summarised the performance and activity of the Border to Coast Global Equity Alpha Fund over Q4 2020. The Appendix to the report covered Border to Coast's annual review of the Fund.

It was noted that the Fund had outperformed the benchmark by 5.3% over Q4, the Fund managed to recover most of the underperformance since the March sell-off but still remained down 2.1% since inception.

Despite a volatile year, the Fund remained well positioned on a forward looking basis although risks remained. Members noted that the abundant liquidity provided by Central Banks was leading to speculative excess in parts of the market.

RESOLVED – That the report be noted.

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

None.

15 ANY OTHER BUSINESS

A briefing was requested on developments with Border to Coast's offices at Toronto Square, the availability/requirements of the extra space agreed and the intentions around re-occupancy.

R Elwell commented that it was hoped to hold the AGM in the offices if guidance allowed.

The Chair thanked Border to Coast and Partner Funds for all their assistance throughout what had been a challenging year.

CHAIR

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PENSIONS PARTNERSHIP

Minutes of the Informal Border to Coast Joint Committee

Tuesday 13 July 2021

Present

Members	Councillor David Coupe (Chair) Councillor Wilf Flynn, Councillor Nick Harrison, Councillor John Horner, Councillor Bill Kellett, Councillor Doug McMurdo, Councillor John Mounsey, Councillor Patrick Mulligan, Councillor Daivd Rudd, Councillor Eddie Strengiel and Councillor Mel Worth Deirdre Burnet and Nicholas Wirz (Scheme Member Representative)
Border to Coast Ltd Representatives	Daniel Booth, Rachel Elwell, Jane Firth, Chris Hitchen, Fiona Miller, Tom Sankey 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	Ian Bainbridge, Alison Clark, Paul Cooper, Pam Duke, Neil Mason, Julie McCabe, Victoria Moffett, Tom Morrison, Nick Orton, Jo Ray, Stuart Reid, Gill Richards, Neil Sellstrom and Andrew Felton
Statutory Officer Representative(s)	George Graham

1 APOLOGIES/DECLARATIONS OF INTEREST

David Coupe the Vice-Chair of the Committee took the Chair for the informal meeting of the Joint Committee and welcomed everyone to the meeting.

There were no apologies.

Cllr McMurdo declared that, although not a conflict, he was Chair of LAPFF.

2 MINUTES OF THE MEETING HELD ON 9TH MARCH 2021 (FOR INFORMATION)

The minutes of the meeting held on 9th March 2021 were noted. They could not be formally agreed as this meeting was being held virtually.

3 COVID-19 (FOR INFORMATION AND DISCUSSION)

R Elwell reported that staff were gradually returning to the office and would be expected to be there more often than not whilst remaining flexible and keeping government guidance in mind.

The office refurbishment was almost complete and the new meeting suite was due to be handed over at the beginning of August.

R Elwell confirmed that the meeting facilities did have the capacity to hold Joint Committee meetings and could also facilitate hybrid meetings. It would be decided over the summer whether the September Joint Committee meeting would be held at Border to Coast's offices or at the conference venue.

4 SCHEDULE OF FUTURE MEETINGS - GEORGE GRAHAM (FOR INFORMATION AND READ ONLY)

The Committee noted the schedule of meeting dates through to the 2023/24 municipal year.

It was agreed that placeholders would be sent to members to ensure future meetings were in diaries.

5 ANNUAL ELECTIONS 2021 - GEORGE GRAHAM (FOR INFORMATION AND READ ONLY)

The Committee noted the process for the upcoming elections.

A request for nominations for the various roles had been issued on 25th June 2021 and Funds were encouraged to submit nominations or a 'nil return' as soon as possible. The closing date was Tuesday 20th July at 5pm.

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

It was noted that there had been no expenditure against the Joint Committee budget to date.

7 ANNUAL RESPONSIBLE INVESTMENT & STEWARDSHIP REPORT 2021 - JANE FIRTH (FOR INFORMATION AND DISCUSSION)

Jane Firth presented the Border to Coast Annual Responsible Investment and Stewardship report for 2021.

The Committee were reminded that Border to Coast became a signatory to the Stewardship Code in 2019 obtaining Tier 1 status. The Code had since undergone a substantial revision which became effective from 1st January 2020.

To become a signatory to the revised Code organisations must submit a Stewardship Report which demonstrated how the Code had been applied over the previous 12 months. This was assessed by the FRC as to whether it met the requirements, and if so, the organisation would then be listed as a signatory to the Code. The report was attached at Appendix 1.

With regard to Responsible Investment, it was noted that the last six months had been busy on the reporting front. This had included:

- Reporting against the UN-supported Principles for Responsible Investment.
- Producing the annual RI and Stewardship Report (attached as an Appendix).
- Producing the Task Force on Climate-related Disclosures (TCFD) report which demonstrated Border to Coast's approach to climate change.

The Committee were reminded that a RI workshop was being held on 20th July to provide an update on Border the Coast's progress, and work towards their objectives for the remainder of 2021. A summary of the output from the recent RI survey would also be provided.

The main objectives of the workshop were to get input from the Committee to identify the key engagement themes for the next three years and to seek support for the Climate Change Policy which it was hoped to publish in September.

In answer to a question from Cllr Harrison, J Firth informed the Committee that quarterly ESG and carbon reports had been developed over the last six months. The reports to the end of June 2021 would be submitted to Pension Committee meetings in September and would be publicly available reports. It was confirmed that these reports could be included in Joint Committee papers in future if required.

N Wirz questioned whether Border to Coast was aligned to the Paris Agreement on Climate Change to be net carbon zero by 2050.

J Firth replied that the matter had been discussed with the Board and they had been supportive. This would also be discussed at next week's meeting to get input from Partner Funds. The new Climate Change Policy was being written with that goal in mind.

8 PROPOSITION APPROVAL: BORDER TO COAST REAL ESTATE FUND, GLOBAL REAL ESTATE FUND AND FUNDING FOR BUILD OUT OF REAL ESTATE CAPABILITY - TIM SANKEY (FOR INFORMATION AND DISCUSSION)

R Elwell informed the Committee that there were three papers covering propositions for UK Property, Global Property and the business case and funding needed to develop these. The property proposition had been in discussion for two years and there had been a significant amount of work undertaken by Border to Coast, Partner Fund officers and their advisors.

From a Border to Coast perspective, they were keen to get indications of support from Partner Funds and would like to move to the next stage of the build in October.

T Sankey informed members that the UK proposition consisted of two funds, one of which was a long-term investment proposition (the Main Fund) designed to deliver a long-term secure investment income base. The second fund was a medium-term transitional fund (the Gateway Fund) which was designed to move Partner Funds assets from where they were currently invested into the Main Fund.

The underlying strategy for the Main Fund was aligned to an investment strategy that several of the Partner Funds with direct property investments had used successfully for a number of years.

With regard to the Global Fund proposition, a Partner Fund survey had been conducted to establish levels of demand. There had been more interest than anticipated and, as a consequence, the scale of the Global Fund had been increased.

It was proposed that there would be two Global Funds, one would have a low risk approach and the other would be a higher risk proposition. Both would look to invest in the main G20 countries.

A global fund consultant would be procured to analyse the market and assist with due diligence.

With regard to the business case for the two propositions, a survey carried out some months previously had received unqualified support from all officers subject to the business case being validated.

Alpha Consulting had been engaged to review the propositions and the cost base that had been assumed. They had completed their work in April had had validated the Business Case with no material changes.

It was believed that the economies of scale worked and analysis showed that all Partner Funds would benefit in the long term. Partner Funds who had direct investments would have lower costs on transition, a quicker payback period but lower long-term savings, whereas Partner Funds with indirect investments would have higher initial costs, the payback period would be longer but long-term savings would be higher.

It was proposed to hold a series of meetings with Partner Fund officers to review the individual transition assumptions and business cases and consider ways to reduce individual transition costs.

Individual Partner Funds would be asked to approve the additional expenditure by the end of September so that the next phase of the build could begin in October.

In response to a question from Cllr McMurdo, R Elwell explained that Border to Coast was today looking for input and support from the Joint Committee for them to go back and work with Pensions Committees. Ultimate approval would be needed from the Shareholders.

The Committee discussed the costs and benefits of the propositions in details.

T Sankey explained that the intention was, with the support of the Joint Committee, to go to each individual Partner Fund and explain what their costs and benefits could be and what assumptions had been made.

Cllr Mulligan asked for an explanation of the 'performance holiday' referred to with regard to the Main Fund in the UK.

It was explained that it would take time to create a fully diversified portfolio, so therefore performance could be erratic in the first few years as diversification was developed.

In answer to a question from I Bainbridge, R Elwell explained why the development costs were higher than for setting up other funds. F Miller provided a rationale for the costs and commented that she was comfortable with them that they had been subject to further review with Alpha.

In answer to the question of what would happen if all Funds did not agree, R Elwell commented that there were provisions in the Shareholder Agreement where some decisions needed 100% agreement and others a majority. She would be meeting with officers in the summer to ensure everyone was clear on the appropriate governance process to follow.

I Bainbridge commented that he hoped that there would be unanimous support for the additional funding as this tied in with the fundamental principles decided when Border to Coast was set up.

- Members noted the UK Real Estate proposition and confirmed they were comfortable with the content and that it was a product that met their investment needs.

- Members noted the UK Global Real Estate proposition and confirmed they were comfortable with the content and that it was a product that met their investment needs.

- Members noted the business case for proceeding to build out a Real Estate capability and confirmed they were comfortable with the content.

- Members noted the budget of £5.5m for the build out of the Real Estate capability to be allocated in line with the previously adopted cost sharing approach and noted this would be put to shareholders for approval over the summer.

- Noted, subject to shareholder approval, that a Depositary/Third Party Administrator, UK Third Party Manager, Legal Advisor and Global Fund Consultant would be procured as part of phase 2.

9 CEO REPORT JUNE 2021 - RACHEL ELWELL (FOR INFORMATION AND DISCUSSION)

R Elwell presented the CEO report for the period since the last Joint Committee meeting which included:

- Interactions with Partner Funds.
- Partner Fund tracking MI which included a new summary chart showing pooling progress by Partner Fund.
- A summary of fund performance.
- An update on fund launches.
- An update on progress from a corporate functions perspective and the expected outturn from the Operating Budget.

It was noted that Covid-19 risks continued to be heightened both in the short-term and longer-term and that Responsible Investment remained a focus area.

R Elwell informed the Committee that Border to Coast were replacing approximately 40 laptops and asked for suggestions where they could be donated to a good cause.

Members agreed that local schools, who had been struggling for technology during the current situation, would appreciate the donation.

Members were asked to send suggestions to Fiona Miller

10 BORDER TO COAST MARKET REVIEW - DANIEL BOOTH (FOR INFORMATION AND DISCUSSION)

D Booth presented a report which provided an overview of market and fund performance as well as detail on the broader macroeconomic environment.

It was noted that all Border to Coast composites (Internal and External Equities and Fixed Income) had 3-5 years assessment periods and were all performing above benchmark.

The US economy and its effect on UK and European markets was discussed and it was noted that LGPS funds should be mindful of the increased inflation risk and potential negative impacts on both their assets and liabilities.

Cllr Mulligan complimented D Booth and his team on fund performance which was impressive.

The Chair thanked D Booth for a very comprehensive report.

11a UK LISTED EQUITY

N Orton presented a report which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over Q1 2021.

It was noted that performance was slightly below the benchmark for the quarter. Factors which benefitted and detracted from the fund were detailed within the report. The report also contained information on the largest individual transactions during the quarter.

The portfolio had maintained a relatively low risk profile given concerns around heightened geopolitical risks and continued uncertainty regarding Brexit.

11b OVERSEAS DEVELOPED EQUITY

T Morrison presented a report which summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q1 2021.

It was noted that overall Fund performance was below its target over Q1 but above its benchmark since inception. The Fund had continued to benefit from ongoing strength in equity markets support by extensive monetary and fiscal stimulus.

T Morrison commented that the Fund was the most carbon intensive fund that Border to Coast managed and it would be a challenge to reposition to meet climate change targets.

D Booth replied that the TCFD status had improved considerably since ESG and RI considerations were integrated into the selection process.

11c EMERGING MARKETS EQUITY

G Graham presented a report which summarised the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q1 2021.

Members were reminded that the Fund would transition to a hybrid fund with a new benchmark with the appointment of two external China managers during Q2 2021. The new format would be reported on from next quarter.

Performance was above the Benchmark for Q1 2021 and was below the benchmark and target since inception.

The key themes affecting the Fund during the quarter were the weaker performance of China relative to the broader universe, in contrast to most of 2020, and strong performance from the Materials, Technology and Industrials sectors, while consumer sectors were weaker. Brazil was amongst the weakest of the major markets, while Taiwan experienced relatively strong returns.

It was noted that the biggest challenge in investing in emerging markets was ESG considerations which was becoming more prominent.

D Booth commented that he was now happy with the way the fund was being managed. He had worked with the new mangers to ensure that Border to Coast's ESG standards were being met.

11d UK LISTED EQUITY ALPHA

V Moffett presented a report which summarised the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q1 2021.

It was noted that the Fund was above benchmark over the quarter and was above its benchmark and performance targets since inception. The Fund's market value at the quarter end was £1.4bn.

The Fund was made up of three underlying funds, details of each manager's performance was contained within the report as was the top and bottom five contributors to performance and details of the portfolio structure.

11e GLOBAL EQUITY ALPHA

P Cooper presented a report which summarised the performance and activity of the Border to Coast Global Equity Alpha Fund over Q1 2021.

It was noted that Border to Coast had launched the fund in October 2019. The Fund invested primarily in global listed equities of companies included in the index. The Fund's market value at the quarter end was £6.1bn.

The Fund's objective was to outperform its MSCI ACWI Index by at least 2% per annum over three year rolling periods net of fees.

The fund was externally managed with Border to Coast responsible for selecting the blend of manager styles as well as the five underlying managers.

It was pleasing to note that after another positive quarter, Global Equity Alpha overall had now outperformed the benchmark since inception and year to date.

11f STERLING INVESTMENT GRADE CREDIT

J Ray presented a report which summarised the performance and activity of the Border to Coast Sterling Investment Grade Credit Fund over Q1 2021 and included the first annual review of the Fund.

Members were informed that it was an externally managed fund with a blend of three managers who primarily invested in the debt of investment grade UK companies.

The performance of the Fund had been pleasing since inception at 9.4%, outperforming the benchmark by 1.8% and the target by 1.2%.

12 STANDING ITEM - UPDATE ON EMERGING MATTERS - RACHEL ELWELL/FIONA MILLER/IAN BAINBRIDGE (FOR INFORMATION AND DISCUSSION)

None.

CHAIR

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PENSIONS PARTNERSHIP

Border to Coast Joint Committee

Date of Meeting: **30th September 2021**

Report Title: **Election Results**

Report Author: **George Graham (for Officer Operations Group)**

1.0 Executive Summary:

1.1 This report provides members with details of the results of the following elections which were carried out remotely over the summer:

- Chair and Vice Chair of the Joint Committee
- Scheme Member Representatives on the Joint Committee
- Non-Executive Director to sit on the Border to Coast Company Board

2.0 Recommendation:

2.1 It is recommended that that the contents of this report are noted and that the position of Vice Chair is formally confirmed.

3.0 Election Results

3.1 As previously reported the terms of the Inter Authority Agreement (IAA) together with the Joint Committee's Constitution and other subsequent decisions and agreements require that elections are held for the following roles

- Chair and Vice Chair of the Joint Committee
- Partner Fund Nominated Non-Executive Director
- Scheme Member Representatives

3.2 Arrangements were made for South Yorkshire Pensions Authority to conduct the elections remotely over the summer. The results were as follows:

- Chair of the Joint Committee – After a second call for nominations Councillor Doug McMurdo the Chair of the Bedfordshire Pension Fund was declared elected unopposed.
- Vice Chair of the Joint Committee – After two calls for nominations no nominations were received. However, Cllr David Coupe Chair of the Teesside Pension Fund has indicated a willingness to continue in the role and no objections have been received to this. It is therefore recommended that the Committee formally confirm this position at this meeting.
- Partner Fund Nominated Non-Executive Director – Cllr John Holtby of East Riding Pension Fund was nominated and elected unopposed to continue in this role.

- Scheme Member Representatives – 5 candidates were nominated for these two roles and following a ballot Nicholas Wirz was elected to serve until 2024, and Deirdre Burnett until 2023.

4.0 Recommendation

4.1 It is recommended that

a. The results set out in the body of this report be noted

b. That the position of Cllr David Coupe as Vice Chair of the Joint Committee be formally confirmed.

Report Author:

George Graham

ggraham@sypa.org.uk

01226 772887

Further Information and Background Documents:

Report to the 9th March 2021 Meeting of the Border to Coast Joint Committee available here

Border to Coast Joint Committee

Date of Meeting: 30th September 2021

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 budget position for 2021/22.

2.0 2021/22 Joint Committee Budget

2.1 At the Joint Committee meeting in March 2021 a budget of £40,000 was approved for 2021/22. This is consistent with the budget in previous years.

2.2 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.

2.3 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.

2.4 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.

2.5 In line with the cost sharing principles these costs will be shared equally between the partner funds.

2.6 To date the only expenditure committed against this budget for 2021/22 is in relation to secretariat support to the Joint Committee, from South Yorkshire Pensions Authority. It is estimated that this be be around £1,600 for the year.

2.7 The budget will also be used this year to provide advice to the Funds for a review of the alternatives series 2 legal documation, including the Limited Partnership Agreement, the Subscription Agreement and the Investment Memorandum. Whilst, the full scope of work is still being determined and a quote has not yet been sought, based on the fees paid for the review of the series 1 legal documentation, this could be in the region of £15,000.

Report Author:

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

Further Information and Background Documents:

N/A

Border to Coast Pensions Partnership Ltd Joint Committee

Date of Meeting: **30th September 2021**

Report Title: Responsible Investment update

Report Sponsor: **Rachel Elwell – CEO, Border to Coast**

1 Executive Summary

1.1 This paper primarily covers the development of our Climate Change Policy ("the Policy") during 2021. We also include a more general update on Responsible Investment (RI) activities at section 5.

1.2 To ensure our Climate Change Policy meets both Border to Coast's and Partner Funds' needs and expectations, we have undertaken considerable stakeholder engagement. Workshops have been held for Officers and the Joint Committee and follow up meetings and RI training session have been held with some committees and Chairs. Feedback and questions received have been addressed.

1.3 The Policy has several elements that were discussed with Partner Funds before including in the final version for approval by the Board. This included a commitment by Border to Coast to be Net Zero by 2050 at the latest for the aggregate investment funds and incorporating exclusions for the first time in a policy.

1.4 Following the governance process, the Climate Change Policy was presented to the September Border to Coast Board meeting for approval. The final approved version is attached at Appendix 1 for noting.

2 Recommendations

2.1 The Joint Committee is asked to note the report.

3 Background

3.1 The decision was made during the RI Policy review in 2020 that a standalone Climate Change Policy would be developed. EY was appointed to assist in developing the Policy, conducting a market assessment of climate change policies to identify best practice and an exercise benchmarking Border to Coast against 10 leading global institutional investors. This helped to identify the increased level of ambition required for the Policy which includes a Net Zero commitment and the main areas of focus.

3.2 We also needed to consider the current resourcing and implications for additional requirements during the implementation phase.

3.3 We have incorporated exclusions for the first time in a policy. This does not contravene our belief in engagement over divestment as this is fundamental to our active stewardship approach. However, in some cases, there is limited scope for influencing company strategy and behaviour, and this would be considered along with key financial risks (regulatory, litigation, reputational, social and environmental) and the investment time horizon when assessing the investment case.

3.4 The outcome of the process and analysis has led to the exclusions of pure coal and tar sand companies in this Policy. Initially a >90% revenue threshold is used where revenues are either from thermal coal or tar sands and related activities. At this level of revenues, we see little scope for successful engagement, where companies either cannot or will not change their strategy. We believe there is potential for positive engagement with companies where coal and tar sands related activities are a smaller part of the business although we note that our portfolios do not currently include companies with a significant reliance on such revenues given the investment case.

3.5 Working with stakeholders has been essential in gaining support for the Policy. The draft Policy was initially shared with the Partner Fund Officers in May for feedback ahead of the June RI Officers Operation Group.

3.6 A workshop was held for the Joint Committee in July, the agenda covered the Climate Change Policy, exclusions and Net Zero by 2050. Additional RI training sessions have been held for some Partner Funds. A follow up workshop was held with the Joint Committee in early September to provide an opportunity to further discuss the approach to exclusions, facilitate discussion and gain support. Feedback following these meetings and the questions raised have been addressed and the exclusions wording in the draft Policy at 5.1 has been amended.

3.7 The Climate Change Policy was presented to the Board and approved on 21st September. Following this an announcement is due to be made regarding the Policy and the Net Zero commitment ahead of the annual Border to Coast conference.

3.8 The Climate Change Policy is attached as Appendix 1.

4 Climate Change Policy

4.1 The draft Policy was initially shared with the Border to Coast Board in May and the proposed level of ambition for the Policy was agreed. The Policy is based on the Net Zero Investment Framework which has been used to articulate our climate change strategy. This is split into four pillars: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.

4.2 The draft Policy included a number of items in brackets which were to be removed following discussions with Partner Funds. These included the following where all brackets have now been removed:

- 2.4 - Roadmap (inserted)
- 3.1 - Commitment to Net Zero by 2050 at the latest
- 3.1 - Commitment to develop a plan to be published in September 2022
- 4.2 - Use of the Net Zero Investment Framework
- 5.1 - Reference to exclusions – revision to original text

- 5.2 - Wording on role of Private Markets offering
- 5.3 - Encourage external managers to report in line with TCFD
- 6.1 - Climate Change a key engagement theme

4.3 As noted above, the wording relating to the proposed exclusions has been amended at 5.1. This is to further emphasise that any exclusions are based on the investment criteria, the investment time horizon, the scope for successful engagement and ongoing monitoring for potential reinstatement.

4.4 Our commitment to Net Zero will be supported by using the Net Zero Investment Framework. A roadmap is included in the Policy at 2.4 which demonstrates the milestones to implement the Policy over the next 12 months. We will develop and set out a plan with high-level targets for each of the four supporting pillars of our climate change strategy (see 4.1) which will be published in September 2022.

5 Responsible Investment update

5.1 The annual Responsible Investment and Stewardship Report was presented to the Joint Committee and published at the end of July. This report allows us to demonstrate our commitment to the Financial Reporting Council's (FRC) UK Stewardship Code. The deadline for potential signatories to submit stewardship reports to the FRC to be included in the first list of signatories was 30 April. As Border to Coast report on a financial rather than calendar year, all reports are published in July, we were therefore unable to submit and be included in the initial signatory list. We held discussions with the FRC regarding alternative submission dates for organisations with different reporting periods. This led to the FRC including two additional submission periods. We are submitting our report to meet the 31 October deadline.

5.2 We have joined the Occupational Pensions Stewardship Council as an inaugural member. The council was set up by the Department for Work and Pensions as a forum for UK pensions schemes to share best practice and support members. We look forward to working with peers to progress and promote high stewardship standards.

5.3 We are a supporter of the Workforce Disclosure Initiative (WDI), a collaborative engagement initiative which encourages listed companies to disclose data through an annual survey on how they manage workers in their direct operations and supply chains. This year the survey has been sent to over 1,000 companies globally and we are engaging with a number of companies to encourage them to respond.

5.4 As a member of the Institutional Investor Group on Climate Change (IIGCC) we have signed the annual Global Investor Statement to Governments along with over 580 other investors. The Statement is being presented to the UN General Assembly in September. We also co-signed an 'Investor Position Statement' on transition planning coordinated by IIGCC. This calls for companies to disclose a net zero transition plan and for investors to be able to vote on progress annually.

5.5 We produce quarterly and annual reports detailing our responsible investment activities. The quarterly stewardship reports produced by Border to Coast and Robeco, along with the voting reports can be found on our website.

6 Risks

6.1 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 this area and our management of climate risk.

6.2 There is a risk that insufficient resources are available to realise the actions, meet the ambitions of the Climate Change Policy and implement in the required timeframe.

7 Conclusion

7.1 The Climate Change Policy has been developed with input from key stakeholders including the Investment Team and Partner Funds. Workshops and additional sessions have been held with Officers and Pension Committees to gain support. Feedback from Officers and the Joint Committee has been acted upon. The Policy includes a commitment to being Net Zero by 2050 and the use of the Net Zero Investment Initiative to support the implementation of this strategy.

7.2 The Committee is asked to note the report.

8 Author

Jane Firth, Head of Responsible Investment, jane.firth@bordertocoast.org.uk

21 September 2021

9 Supporting documents

- Appendix 1 – Climate Change Policy

Important Information

Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: 1 October 2021

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

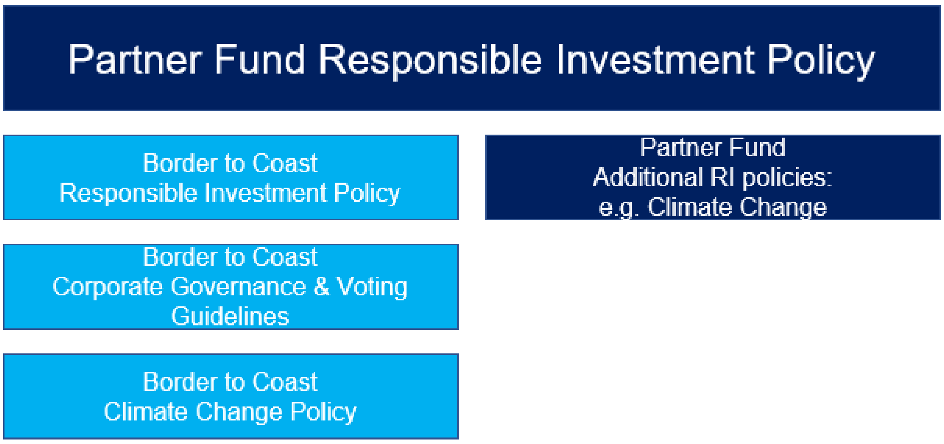
1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, "Global warming of 1.5ºC"[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach 'net zero' around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

[1] https://www.ipcc.ch/sr15/

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

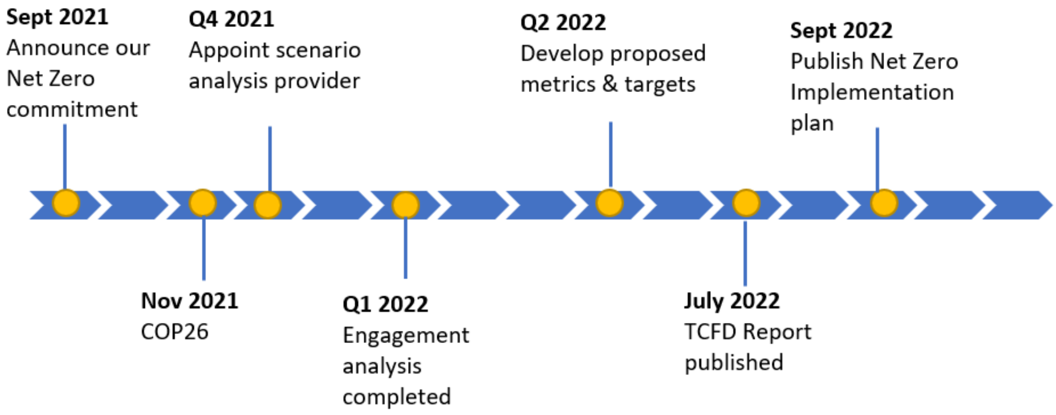
We consider climate change risks and opportunities within our investment decision making process.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

We are committed to transparency regarding our climate change issues and activities.

2.4 Roadmap

The roadmap demonstrates the milestones to implement the policy over the next 12 months.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we will continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

In support of our Net Zero commitment, we will develop and set out a plan with high-level targets for each of the four supporting pillars of our climate change strategy which will be published in September 2022.

3.2 Governance and implementation

We take a holistic approach to sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, oversees the identification and management of risk and opportunities. The Board is responsible for the oversight of climate related impacts as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is the role of the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK regulations, and wider regulation including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model, with external assurance providers acting as a fourth line. Risks to the Company are owned and managed by the business or functional areas (1st Line of Defence) and are subject to oversight and challenge by the Risk and Compliance Function (2nd Line of Defence) and independent assurance by Internal Audit (3rd Line of Defence).

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

[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.

We are developing climate risk assessment for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This will necessarily be an iterative process, recognising that data, tools and methodologies are developing rapidly.

We are reviewing how we conduct scenario analysis across our portfolios, evaluating tools and external providers and different scenarios and expect to have this in place during 2022.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050. Work will be undertaken during 2022 to assess and define any targets based around this commitment.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored with transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings and Climate Action 100+ Net Zero Company Benchmark to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised.

Carbon footprints are conducted relative to the benchmark.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We are therefore considering the role private markets will play in managing transition risk and how we can invest in climate change opportunities as part of our Private Markets offering.

5.3 Working with external managers

Assessing climate risk is an integral part of the external manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We encourage managers to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we assess and monitor where managers are making net zero commitments.

6 Engagement and advocacy

As a shareholder, we have responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe success for our climate ambition can be supported by effective stewardship and governance oversight.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reaching Net-Zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change, Climate Action 100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the Transition Pathway Initiative.

In particular, we are currently focusing on the following actions:

- Vote 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. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner Robeco and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use carbon footprints and the TPI toolkit to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the Institutional Investor Group on Climate Change ('IIGCC'). We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities. We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy, as well as our exposure to the risks and opportunities of climate change.

During 2021 and 2022 we will be focusing on the following actions:

- Reviewing on an annual basis how we are implementing this Climate Change Policy. The findings will be reported to our Board and Partner Funds, as well as made publicly accessible through our TCFD and Stewardship reports and other disclosures.
- Reporting in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to climate change. We published our first TCFD report in 2020 and will look to evolve and refine our TCFD report, reflecting further developments that we undertake as part of implementation of this policy.
- Disclosing our voting activity.
- Reporting on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclosing climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.
- Reporting our progress against the Net Zero Investment Framework.

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PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Joint Committee

Date of Meeting: **30 September 2021**

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 the macroeconomic environment as well as high level details on market and fund performance.

1.2 Border to Coast composites (Internal & External Equities & Fixed Income) have 3-5 year performance assessment periods. All are performing above benchmark since inception.

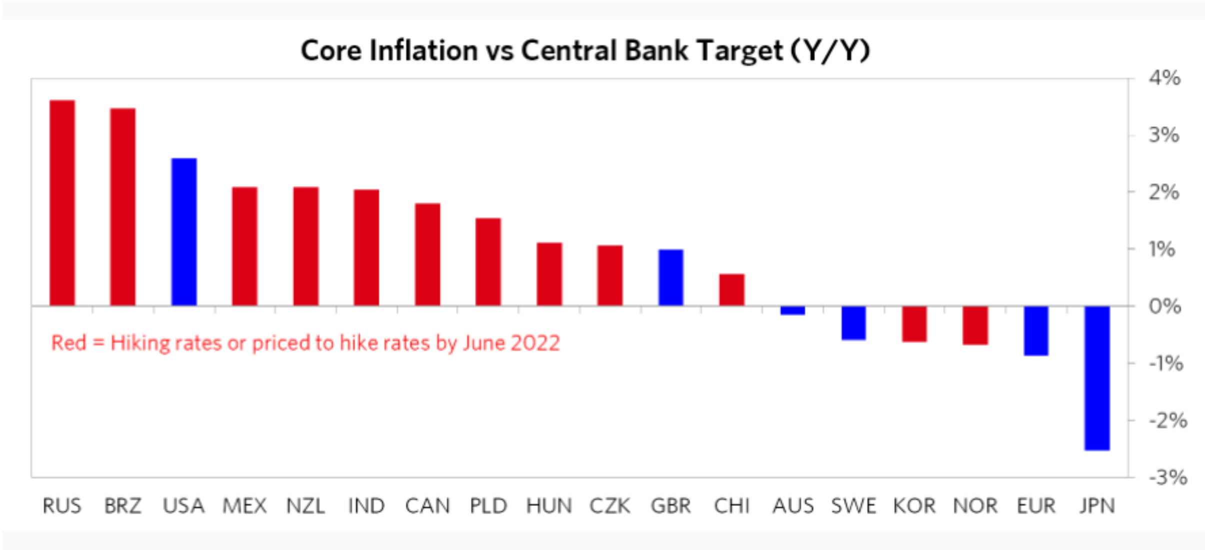
2 Macroeconomic Environment

2.1 Stronger than expected core Inflation and Growth releases across the globe with some central banks proposing higher rates (New Zealand), others reducing quantitative easing ‘QE’ / asset purchases (UK), whilst the US where seeing some of the strongest inflation and growth readings has only signalled a future tapering of asset purchases toward year-end with interest rates on hold for another year.

	Conditions		Monetary Policy Stance			
	Core Inflation	RGDP vs 2019	QE Ongoing	QE Pace Reduced	Current Policy Rate	Priced Chg Next 12m
USA	4.6%	1.9%	Yes	No	0.1%	0.1%
NOR	1.3%	0.9%	No	-	0.0%	0.7%
EUR	1.1%	-0.3%	Yes	Yes	-0.5%	0.0%
CAN	3.8%	-0.5%	Yes	Yes	0.3%	0.5%
AUS	2.3%	-1.0%	Yes	Yes	0.1%	0.1%
NZL	4.1%	-1.1%	No	Stopped	0.3%	1.2%
JPN	-0.5%	-2.2%	Yes	Yes	-0.1%	0.0%
GBR	3.0%	-2.6%	Yes	Yes	0.1%	0.4%

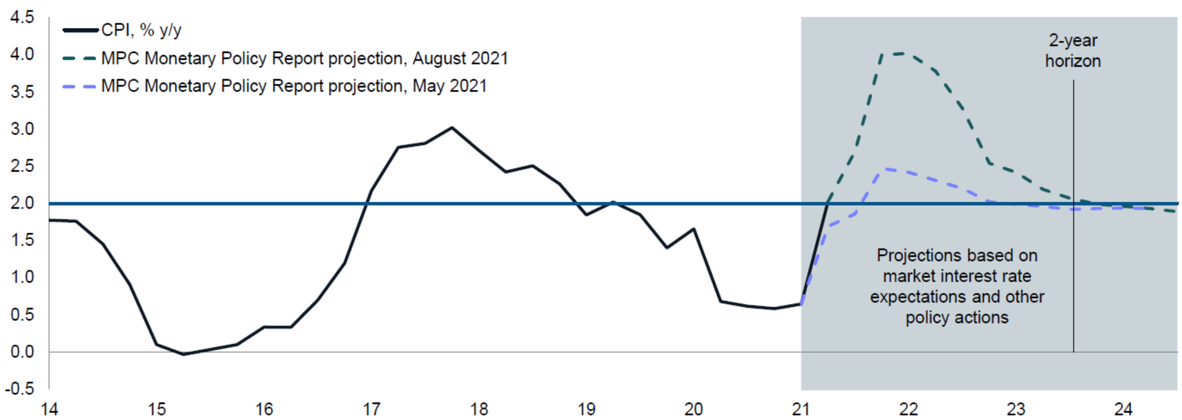
Source: Bridgewater Associates

2.2 Seen elevated 2Q 2021 core inflation rates that were biased upwards by low year-over-year base effects due to the onset of COVID crisis in 2Q 2020. The US stands out as a country with high core inflation rate which is not planning any rate increases by June 2022, with the US Fed deliberately being behind the curve. Supply side shortages will likely keep inflation readings elevated for the remainder of 2021 and into 2022 so it will be key to monitor the reaction function of Central Banks to continued high inflation readings.



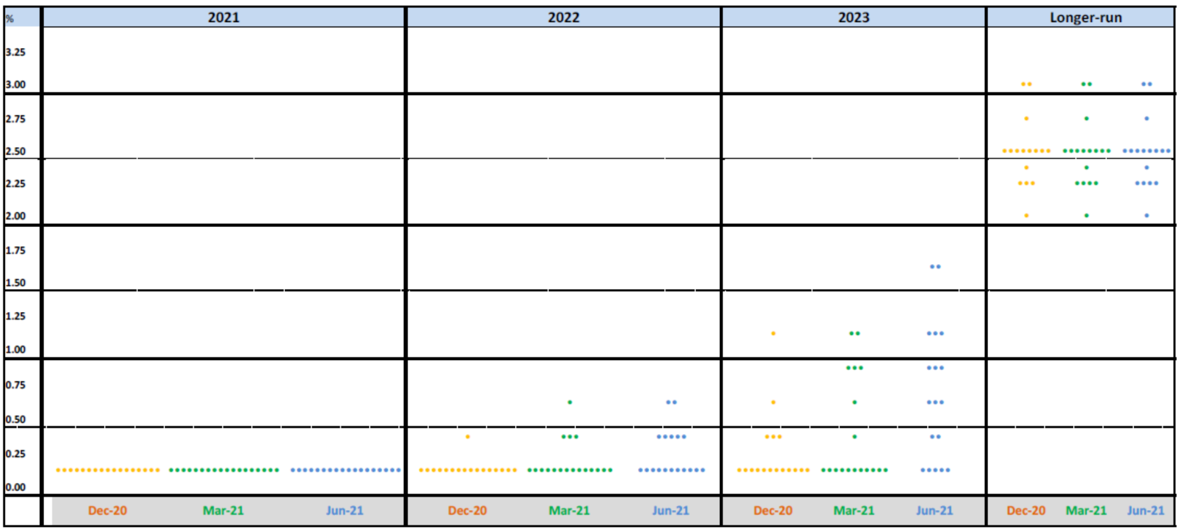
Source: Bridgewater Associates

2.3 In the UK the Bank of England monetary policy projection changed dramatically from the May 2021 to August 2021 meeting to now show a substantial near-term inflation overshoot:



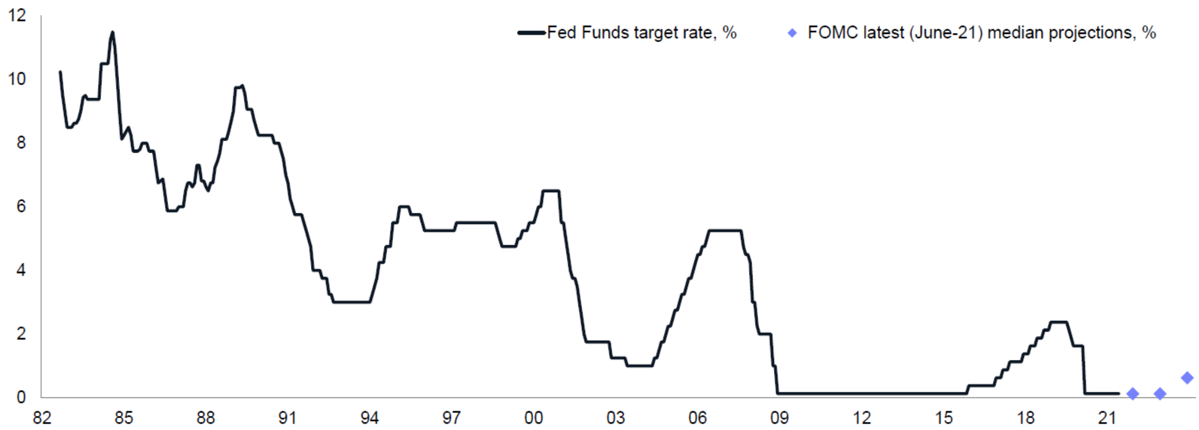
Source: Goldman Sachs

2.4 US interest rate projections increased from the Dec-20 to Mar-21 and Jun-21 meeting with higher interest rates forecasted in 2023:



Source: Goldman Sachs

2.5 Near-term US interest rates still appear accommodative versus a longer-term history and versus current high levels of inflation:



Source: Goldman Sachs

2.6 UK 10-year Gilt yields increased by 60 bps over the last year to a yield of 0.8% but also remain close to historic lows as shown on the chart below:

Source: Bloomberg

2.7 PIMCO view is that "The dramatic and uneven rebound in growth across countries this year is likely to ease to synchronized moderation in 2022, though to a still above-trend pace. From an asset allocation perspective, this means growth-oriented assets, such as equities and credit, may still offer relatively attractive returns. But we expect greater dispersion across sectors and regions. Uncertainty surrounding the uneven recovery from a pandemic-driven recession calls for flexibility and a careful eye toward sector and security selection…"

3 Market Performance

3.1 As of end August 2020, MSCI World (GBP) and MSCI ACWI (GBP) returned 17.1% and 15.1% respectively (the latter including emerging markets). 5 and 10 year equity returns are above long-term expectations whereas 20 year returns are more inline with expectations:

INDEX PERFORMANCE — NET RETURNS (%) (AUG 31, 2021)	1 Mo	3 Mo	1 Yr	YTD	3 Yr (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)	Since Dec 29, 2000 (Annualized)	FUNDAMENTALS (AUG 31, 2021) Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	3.54	9.36	26.25	17.14	12.79	13.70	14.04	7.09	1.66	23.87	19.54	3.31
MSCI Emerging Markets	3.67	-0.97	17.84	2.15	7.79	9.31	6.63	9.84	2.07	15.98	13.07	2.00
MSCI ACWI	3.55	8.01	25.15	15.12	12.18	13.17	13.16	7.10	1.71	22.54	18.46	3.07

Source: MSCI

4 Fund Performance

4.1 The tables below show our fund absolute and relative performance (versus benchmark) up until the end of June 2021 (in-line with reporting period) and up until end of August 2021 (most up-to-date month-end given we are almost at the end of the quarter):

Period (end June 2021)		**ITD (% p.a.)**	
Fund Name	Fund	Benchmark	Relative
Internal Equity Composite	**6.7%**	**6.0%**	**0.7%**
UK Listed Equity	3.0%	2.0%	1.0%
Overseas Developed Equity	11.7%	10.8%	1.0%
*Emerging Market Equity ***	10.7%	13.0%	-2.2%
External Equity Composite	**15.2%**	**14.0%**	**1.2%**
UK Listed Equity Alpha	10.1%	6.6%	3.5%
Global Listed Equity Alpha	17.3%	17.1%	0.2%
Fixed Income Composite	**8.3%**	**6.8%**	**1.5%**
Sterling Investment Grade Credit	9.2%	7.5%	1.7%
*Sterling Index Linked Bonds **	-1.3%	-1.8%	0.6%

* Less than 1-year (Oct 21 launch) ** Hybird Fund with both internal and external funds

Period (end August 2021)		**ITD (% p.a.)**	
Fund Name	Fund	Benchmark	Relative
Internal Equity Composite	**7.5%**	**6.8%**	**0.7%**
UK Listed Equity	3.8%	3.0%	0.8%
Overseas Developed Equity	12.3%	11.3%	1.0%
*Emerging Market Equity ***	8.3%	10.9%	-2.6%
External Equity Composite	**14.9%**	**14.1%**	**0.8%**
UK Listed Equity Alpha	11.4%	7.4%	4.0%
Global Listed Equity Alpha	17.1%	17.7%	-0.6%
Fixed Income Composite	**10.1%**	**8.7%**	**1.4%**
Sterling Investment Grade Credit	9.0%	7.5%	1.5%
*Sterling Index Linked Bonds **	7.6%	7.0%	0.6%

* Less than 1-year (Oct 21 launch) ** Hybird Fund with both internal and external funds

4.2 Internal Equity composite (asset-weighted) delivered 0.7% outperformance over benchmark (target +1%) since launch, with positive performance from 5 of our 6 internal PMs. This is attributed mainly to stock selection and has been achieved with a low tracking error and a high risk-adjusted return. Our Emerging Market fund has been restructured with China managed externally, which we believe will be accretive for investors, as they benefit from a large, local research teams covering a deep and innovation growth market.

4.3 External Equity composite (asset weighted) delivered 1.2% (end of June) and 0.8% (end Aug) versus target +2%, with strong outperformance from UK Alpha whilst our Global Alpha fund was broadly in-line with benchmark (slight above in June and slightly behind in August due to recent value underperformance). The earlier rebalancing from Growth into Value funds had a positive impact on the UK Alpha fund and neutral on Global Alpha.

4.4 Fixed Income composite was 1.4-1.5% above benchmark with both funds substantially ahead of their targets (+0.65% and +0.2%), as they benefited from the earlier compression in credit spreads.

5 Conclusion

5.1 1H 2021 inflation releases were biased upwards by the low 2020 base impact and 2H 2021 inflation numbers will remain elevated due to supply side constraints. When combine cyclical factors (record monetary and fiscal stimulus and record levels of household and corporate cash balances) with longer-term structural factors (higher taxes, ESG costs and unit labour costs) then remains a risk elevated inflation for longer than expected. The 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.

5.2 The remanent of record Fiscal and Monetary stimulus has led to higher than forecasted growth and inflation rates and resulted in a strong liquidity induced rally in risky assets. As we move into the mid-cycle period a diversified pool of risky assets still appears attractive relative to cash (guaranteed negative real returns) but be aware of higher levels of risk and performance dispersion. For public equities the benefit of higher nominal earning will be partly offset by margin compression (from higher input costs) with higher interest rates to come and thereafter potentially lower multiples that investors will pay for future cashflows. How central banks react to elevated levels of inflation in mid-2022 will likely determine the future market outcome.

Report Author:

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22nd September 2021

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Agenda Item 9

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Agenda Item 10

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Appendix A

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Agenda Item 12b

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Appendix A

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Agenda Item 12e

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