



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 David 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 managers 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