



Minutes of the Border to Coast Joint Committee

Tuesday, 23 November 2021 - Border to Coast, Toronto Square, Leeds

Present

Members

Councillor Doug McMurdo (Chair)
Councillor Wilf Flynn, Councillor Nick Harrison, Councillor John Mounsey, Councillor Patrick Mulligan, Councillor David Rudd and Councillor Mel Worth
Nicholas Wirz (Scheme Member Representative)

Border to Coast Ltd Representatives

Rachel Elwell, Daniel Booth, Chris Hitchen, Graham Long, Fiona Miller and Andrew Stone

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

Fund Officers

Ian Bainbridge, Nick Orton, Jo Ray and Gill Richards

Statutory Officer Representative(s)

George Graham

Apologies were received from

Councillor John Horner, Councillor Eddie Strengeil, Councillor John Holtby and Deidre Burnet

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

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

Members felt that, under the current circumstances, the venue felt a little crowded. It was suggested that an alternative venue be looked at for the next meeting of the Committee.

The Chair announced that the Committee was not quorate. Any decisions would be made in principle and ratified at the next meeting of the Committee, this would allow Border to Coast to proceed with policies and legal advice where necessary.

There were no declarations of interest.

2 MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2021

RESOLVED – That the minutes of the meeting held on 30th September 2021 be agreed as a true record.

3 COVID-19 UPDATE

It was noted that the situation had not changed since the last meeting of the Committee.

4 JOINT COMMITTEE BUDGET

A report was submitted which gave an update on the budgetary position for 2021/22.

It was noted that, to date, two items of expenditure had been committed against the budget.

These were:

- Secretariat support to the Joint Committee from South Yorkshire Pensions Authority at an estimated cost of £1,600 for the year.
- Legal work to review the alternatives series 2 legal documentation including the Limited Partnership Agreement, the Subscription Agreement and the Investment Memorandum. The work had been commissioned from Burness Paull at an estimated cost of £9,500.

N Wirz questioned whether any other firms had been approached with regard to the legal work to compare costs.

I Bainbridge informed the Committee that the work was a follow on from series 1 and therefore no one else had been approached as the Partner Funds had supported the choice of Burness Paull for that work.

The Committee was informed that there may also be a further charge against the budget for legal work in support of a review of governance arrangements. The exact nature of the review and the scope of the work was still to be determined.

RESOLVED – That the report be noted.

5 RESPONSIBLE INVESTMENT POLICIES ANNUAL REVIEW 2021 - RACHEL ELWELL

A report was considered which set out a review of the Responsible Investment Policy and the Corporate Governance and Voting Guidelines.

The Committee noted that the Responsible Investment Policy review reflected work undertaken during the year, including the development of the Climate Change Policy and associated exclusions, and the refreshment of the key engagement themes. All changes were shown as tracked changes in Appendix A to the report.

The Corporate Governance & Voting Guidelines had been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2021 had also been used in the review process. There were several minor amendments including proposed additions and clarification of text. All changes were shown as tracked changes in Appendix B.

Responsible Investment workshops had been held at regular intervals for Partner Fund Officers and the Joint Committee to discuss RI topics and issues to be included in the policy review. Topics covered included the development of the Climate Change Policy, Net Zero and the approach to exclusions and refreshing the priority engagement themes. The Chair commented that these had been useful and that the Climate Statement, issued after the Border to Coast Annual Conference, had received a lot of media attention.

N Wirz commented that the Scheme Member representatives were of the view that, in future, there should be more ambition in the area of diversity.

RESOLVED – That the Committee:

- i) Notes the proposed revisions to the Responsible Investment Policy and Corporate Governance & Voting Guidelines.
- ii) Supports taking the revised policies to Pensions Committees for comment and for them to consider adoption of the principles in their own Responsible Investment Policies in line with industry best practice

6 SUMMARY OF INVESTMENT PERFORMANCE AND MARKET RETURNS - DANIEL BOOTH

D Booth thanked the Committee and Officers for their support and constructive challenge during his time at Border to Coast and he felt he was leaving the Company with a good solid base on which to build.

He presented a report which provided an overview of the macroeconomic environment as well as high level details on market and fund performances.

It was noted that strong cyclical conditions following record amounts of monetary and fiscal stimulus combined with elevated levels of cash on household and corporate balance sheets had led to demand outstripping supply with resultant high prices (inflation) and inflation expectations. With inflation levels above central bank targets, this was starting to put pressure on banks to react and as a result there had been some interest rate rises and discontinuation of quantitative easing programmes. It was thought that the speed and intensity of monetary tightening versus market expectation would be a key determinate for asset price performance in 2022.

Cllr Mulligan paid tribute to D Booth for his contribution to Border to Coast, commenting that his style, investment philosophy and calm and collected attitude had been an enormous asset to Border to Coast which would be missed.

The Chair echoed Cllr Mulligan's comments and, on behalf of the Joint Committee, thanked D Booth for all his hard work and wished him well for the future.

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.

7 BORDER TO COAST ASSET TRANSFER PLANNING

G Long presented a report which set out Border to Coast's asset transfer plans for 2022-2025.

The Committee was reminded that a fundamental objective of pooling was to transfer assets in the context of value for money and sustainability. To support this, significant work was undertaken between Border to Coast and Partner Funds on an ongoing basis to understand Partner Funds' needs and objectives.

The process for working collectively and in partnership to identify the "building blocks" required to support Partner Funds strategic asset allocations had previously been agreed. This had taken into account Partner Fund's objectives, risk management, capacity and costs to propose both a prioritisation of capability build and a process to enable Partner Funds to participate in sub-fund design (detailed in section 3 of the report).

Discussions had taken place with Partner Funds about future capability development including new funds, services and changes to existing funds. Key observations from the current indicative plan were at section 4 of the report.

It was noted that the approach to asset transfer and fund design/launch was last reviewed with the Joint Committee in November 2020. Border to Coast continued to take feedback and learn from each fund launch and progress was monitored using the quarterly Management Information as detailed in section 5.

Border to Coast was beginning to focus attention more on the assets that remained unpooled and the solutions required to bring them into Border to Coast. This was the focus of the proposed capability launch plan in section 4.1 of the paper.

RESOLVED – That the Joint Committee:

- i) Note the proposed outline plan for building investment capabilities over the next three years which would form the basis of the strategic plan and budget which would ultimately go to the shareholders for approval.

- ii) Note the quarterly management information used to track pooling progress as set out in section 5 of the G Long presented a report which set out Border to Coast's asset transfer plans for 2022-2025.

8 UK EQUITY ALPHA - MANAGER SEARCH OUTCOME - GRAHAM LONG

A report was submitted which provided an update on the UK Equity Alpha manager search.

The report summarised the steps in the search process and set out the investment case for the outcome with comparisons between the current and changed portfolio covering downside protection, risk and liquidity impacts, ESG characteristics and returns analysis.

The report also detailed the impact on fees and estimated transition costs resulting from the recommended change.

RESOLVED – That the Joint Committee note the appointment of Lindsell Train and RWC to the UK Equity Alpha Fund and the full disinvestment from UBS.

9 ALTERNATIVES SERIES 2 AND CLIMATE OPPORTUNITIES - MARK LYON

The Committee considered a report which provided an overview of the proposed offerings for Series 2 of the Alternatives programme following discussions internally and with Partner Funds.

It was noted that, following extensive consultation with Partner Funds, their consultants and advisors, it was considered appropriate to propose follow-on offerings for the existing Series 1 asset classes with relatively minor changes to their strategies, parameters and benchmarks.

It was believed that there was sufficient demand, and suitable available investments, to provide a Climate Opportunities offering which would assist in meeting climate transition commitments and objectives.

It was noted that, as agreed with the Board and Partner Funds at the initial launch of the Alternatives programme, a full review of legal documentation was being undertaken to ensure that it remained fit for purpose, with separate legal advice for Partner Funds to support their signing any subsequent amendments.

RESOLVED – That the Joint Committee:

- i) Note the report.
- ii) Note the overview of the Series 2 offerings (outlined in 4.5 – 4.9 and the appendices).
- iii) Delegate to officers the authority to review the contractual documentation required to support the Alternatives Series 2 launch.

10 CEO REPORT

R Elwell presented the CEO report for the period since the last Joint Committee meeting to the end of October which contained:

- 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.
- A brief discussion on the world external to pooling.

It was stated that Covid-19 risks continued to be heightened both in the short-term and longer-term.

Responsible investment remained a focus area.

RESOLVED – That the report be noted.

A. UK LISTED EQUITY

A report was submitted which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over Q3 2021.

It was noted that performance was below the benchmark for Q3 2021 and modestly below the performance objective since inception.

Factors which benefitted and detracted from the Fund were contained within the report, as were the top five contributors to performance.

RESOLVED – That the report be noted.

B. OVERSEAS DEVELOPED EQUITY

A report was submitted which summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q3 2021.

It was noted that overall Fund performance was above its target over Q3 2021 and since inception. The Fund had continued to benefit from ongoing strength in equity markets supported by extensive monetary and fiscal stimulus.

Factors which benefitted and detracted from the Fund were contained within the report, as were the top and bottom five contributors.

RESOLVED – That the report be noted.

C. EMERGING MARKET EQUITIES

A report was considered which summarised the performance and activity of the Border to Coast Emerging Market Equity Fund over Q3 2021.

The Committee was reminded that Border to Coast had restructured the Emerging Market portfolio to consist of three sleeves – an internally managed sleeve focusing on Emerging Markets excluding China and two China-focused sleeves managed externally by specialists in the Chinese market.

Over the quarter the EM ex-China sleeve, managed internally by Border to Coast, delivered a positive absolute return, although it underperformed its benchmark by 0.8%.

In aggregate, the fund's allocation to China was a positive contributor to relative returns, with the China portion of the Fund outperforming by 1.7% over the quarter.

RESOLVED – That the report be noted.

D. UK LISTED EQUITY ALPHA

A report was submitted which summarised the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q3 2021.

The Committee noted that the quarter was positive for UK equities as the Fund delivered 2.72% which was 0.49% ahead of the FTSE All share return of 2.23%. The growth was driven by strong earnings reports (rebounding from Covid-19 weaknesses), supportive monetary policy and the reopening of the economy following a successful vaccination programme, but dispersion between underlying Fund managers persisted.

Members were informed that valuations of equity markets were above their long-term average and, although investor sentiment remained positive, further market progress would seem to remain heavily dependent upon continued strong economic growth feeding through into earnings.

RESOLVED – That the report be noted

E. GLOBAL EQUITY ALPHA

A report was submitted which summarised the performance and activity of the Border to Coast Global Equity Alpha Fund over Q3 2021.

The Committee was informed that many of the portfolio companies had a strong earnings season, with the Fund delivering more earnings surprises than the benchmark. Four of the five investment managers delivered positive absolute returns over the period. Manager performance, net of fees, to the quarter end was contained within the report as was the regional breakdown of the Fund and benchmark.

RESOLVED – That the report be noted.

F. STERLING INVESTMENT GRADE CREDIT

A report was considered which summarised the performance and activity of the Border to Coast Sterling Investment Grade Credit Fund over Q3 2021.

The Fund was down -0.77% in absolute terms during the period, largely impacted by the movements in interest rate expectations. However, as with prior periods, the Fund had delivered excess returns (+0.21% above the benchmark) in a period of general asset class weakness.

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

The Committee discussed staffing and recruitment issues within Border to Coast and the launch of the Real Estate portfolio

CHAIR