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BORDER TO COAST

PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

Venue: **Border to Coast, Toronto Square, Leeds**

Date: **Tuesday, 23 November 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

Scheme Member Representatives

Deidre Burnett	Cumbria LPB
Nicholas Wirz	Tyne & Wear LPB

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	**Update on Emerging Matters - Rachel Elwell/Fiona Miller/Ian Bainbridge**	Verbal Report
	Glossary of Terms	

PENSIONS PARTNERSHIP

Minutes of the Border to Coast Joint Committee

Thursday 30 September 2021 - Border to Coast Offices, Toronto Square, Leeds, LS1 2HJ

Present

Members	Councillor Doug McMurdo (Chair) Councillor Wilf Flynn, Councillor Nick Harrison, Councillor John Horner, Councillor Bill Kellett, Councillor Michael Lee, Councillor Patrick Mulligan and Councillor Eddie Strengiel
	Deirdre Burnet and Nicholas Wirz (Scheme Member Representatives)
Border to Coast Ltd Representatives	Daniel Booth, Rachel Elwell, Chris Hitchen and Fiona Miller
	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, Tom Morrison, Jo Ray, Ayaz Malik, Mel Bray, Paul Audu, Andrew Stone, Jane Firth and Mark Lyon
Statutory Officer Representative(s)	George Graham
Apologies were received from	Councillor David Coupe, Councillor John Mounsey, Councillor Daivd Rudd, Councillor Mel Worth, Neil Mason and Gill Richards

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

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

There were no declarations of interest.

2 MINUTES OF THE MEETING HELD ON 9TH MARCH 2021

RESOLVED – That the minutes of the meeting held on 9 March 2021 be agreed as a true record.

3 NOTES OF THE INFORMAL MEETING HELD ON 13TH JULY 2021

RESOLVED – That the minutes of the informal meeting held on 13 July 2021 be agreed as a true record.

4 COVID-19

The Chair hoped that Members would continue to stay safe and well throughout the COVID-19 pandemic. He encouraged Members to take the appropriate testing throughout the duration of the Border to Coast Annual Conference.

5 ELECTIONS AND NOMINATIONS 2021 - GEORGE GRAHAM

A report was considered which provided Members with the results of the following elections that had been carried out remotely by South Yorkshire Pensions Authority 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.

Members noted the results of the elections:-

- Chair of the Joint Committee – Following a second call for nominations, Councillor Doug McMurdo, Chair of the Bedfordshire Pension Fund had been declared elected unopposed.
- Vice Chair of the Joint Committee – Following two calls for nominations, no nominations had been received. Councillor David Coupe, Chair of the Teesside Pension Fund had indicated a willingness to continue in the role. No objections had been received.
- Partner Fund Nominated Non-Executive Director – Councillor John Holtby of East Riding Pension Fund had been nominated and elected unopposed to continue in the role.
- Scheme Member Representatives – Five candidates had been nominated for the two roles. Following a ballot, Nicholas Wirz had been elected to serve until 2024 and Deirdre Burnett until 2023.

RESOLVED – That:-

i) The results set out in the body of the report be noted.

ii) The position of Councillor David Coupe as Vice Chair of the Joint Committee be formally confirmed.

6 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE

A report was submitted which presented the Joint Committee budget position for 2021/22.

Members noted that to date, the only expenditure that had been committed against the Joint Committee budget for 2021/22 related to the secretarial support provided by South Yorkshire Pensions Authority, at an estimated cost of £1,600 for the year.

In addition, the budget would be utilised during the year to provide advice to the Funds for a review of the alternatives series 2 legal documentation (to include the Limited Partnership Agreement, the Subscription Agreement and the Investment Memorandum) at an estimated cost of £15,000.

RESOLVED – That the Joint Committee noted the budget position for 2021/22.

7 RESPONSIBLE INVESTMENT UPDATE INCLUDING CLIMATE CHANGE POLICY - JANE FIRTH

A report was presented which provided an update on the development of the Climate Change Policy ("the Policy") during 2021. The report also included a general update on Responsible Investment (RI) activities.

J Firth proposed that the report be amended, to include an additional recommendation for the Committee to review and comment on the Climate Change Policy.

Members noted the considerable stakeholder engagement that had been undertaken to ensure that the Policy met the needs and expectations of both the Border to Coast and Partner Funds. The Policy included a commitment by Border to Coast to be Net Zero by 2050 at the latest, for the aggregate investment funds and incorporated some limited exclusions for the first time in the policy.

The annual Responsible Investment and Stewardship Report had been published at the end of July 2021. Border to Coast reported on a financial year, rather than a calendar year, and therefore it had not been possible to submit a Stewardship Report to the Financial Reporting Council (FRC) in the first list of signatories by 30 April 2021. The FRC had confirmed there would be two additional submission periods. Border to Coast noted they would submit a report to meet the 31 October 2021 deadline.

Together with over 580 other investors, Border to Coast had signed the annual Global Investor Statement to Governments, which would be presented to the UN General Assembly in September 2021.

Councillor Harrison thanked J Firth for the work undertaken in the production of the report. He was pleased to observe Border to Coast's commitment to be Net Zero by 2050 for the aggregate investment funds. He hoped that this approach would also be adopted by the external managers.

In relation to section 4.2 of the Climate Change Policy, Councillor Strengiel expressed concern that not all of the companies disclosed their carbon data. He queried what pressures could be applied to make those companies disclose the information.

The Chair emphasised the need for everyone to apply pressure on the Government for it to be made a regulatory requirement for all companies to disclose their carbon data. He was hopeful that the upcoming COP26 would achieve a good outcome. He expressed his thanks to J Firth and colleagues for the work undertaken.

RESOLVED – That Members:-

i) Noted the report.

ii) Reviewed and commented on the Climate Change Policy.

8 SUMMARY OF INVESTMENT PERFORMANCE AND MARKET RETURNS - DANIEL BOOTH

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

It was noted that since inception, all of the Border to Coast composites (Internal & External Equities & Fixed Income) had performed above the benchmark.

In relation to the elevated inflation readings, D Booth commented that it was important for Members to consider how the funding ratios would be impacted by the inflation rates in 2022/23.

RESOLVED – That the report be noted.

<u>Exclusion of the Public and Press</u>

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.

9 CEO REPORT - RACHEL ELWELL

R Elwell presented the CEO report for the period since the last Joint Committee meeting to the end of April 2021 which included:-

- Interactions with the Partner Funds.
- Partner Fund tracking MI.
- 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.

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.

RESOLVED – That Members noted the update.

10 CONSIDERATION OF CLIMATE CHANGE TRANSITION BENCHMARKS

A report was submitted which enabled Members to consider the climate transition benchmarks.

In response to a question received from I Bainbridge regarding whether there was any scope for a secondary benchmark in terms of carbon intensity, M Lyon commented that he would ascertain whether there were any cost implications.

R Elwell suggested that a progress update report would next be provided to the Joint Committee meeting scheduled to be held in June 2022. Portfolio management would continue to be reported to the Joint Committee on a quarterly basis.

It was noted that WACI – Weighted Average Carbon Intensity would be added to the glossary of commonly used terms and abbreviations.

The Chair requested Members to ensure that they were interacting with their respective officers around the subject, who would be discussing the matter in detail at the Officers' Group.

RESOLVED – That the report be noted.

11 ALTERNATIVES - ANNUAL REVIEW

A report was submitted on the annual review of the Alternatives structure that had been performed in line with the Product Development and Review Policy.

Members noted the Border to Coast's £40m investment in the Sleaford Renewable Energy Plant. Further information could be accessed via the following link:-

https://www.bordertocoast.org.uk/2020/12/02/40m-investment-sleaford-renewable-energy-plant/

RESOLVED – That the report be noted.

12 UK LISTED EQUITY - INCLUDING ANNUAL REVIEW

A report was presented which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over Q2 2021.

Members noted that performance was slightly below the benchmark for the quarter, however it was closely aligned with the performance objective since inception. The factors which benefited and detracted from the Fund were detailed within the report.

RESOLVED – That the report be noted.

13 OVERSEAS DEVELOPED EQUITY - INCLUDING ANNUAL REVIEW

A report was submitted which summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q2 2021.

It was noted that the overall Fund performance was below its target over Q2 2021, but it was above its benchmark since inception.

The Fund had continued to benefit from ongoing strength in equity markets, supported by extensive monetary and fiscal stimulus. Markets had been buoyed by the prospect of vaccines bringing an end to the Covid-19 pandemic and carrying the prospect of a likely V-shaped recovery in many economies.

The Chair reminded Members that express permission should be sought to share the private reports with the Advisors.

RESOLVED – That the report be noted.

14 EMERGING MARKET EQUITIES

A report was presented which summarised the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q2 2021. The Appendix to the report covered Border to Coast's annual review of the Fund.

Shortly after the end of Q1 2021, the Fund had evolved from a purely internally managed format into a hybrid of internal and external management, together with a new benchmark.

RESOLVED – That the report be noted.

15 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 Q2 2021.

In terms of performance over the quarter, the Fund was below benchmark but it remained above its benchmark and performance targets since inception.

RESOLVED – That the report be noted.

16 GLOBAL EQUITY ALPHA

A report was presented which summarised the performance and activity of the Border to Coast Global Equity Alpha Fund over Q2 2021.

The externally managed Fund had been launched by Border to Coast on 30 September 2019. The Fund invested primarily in global listed equities of companies from countries included in the index.

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

RESOLVED – That the report be noted.

17 STERLING INVESTMENT GRADE CREDIT

A report was submitted which summarised the performance and activity of the Border to Coast Sterling Investment Grade Credit Fund over Q2 2021.

The externally managed fund consisted of a blend of three managers, which had all out performed since inception.

The Chair expressed his thanks to the Investment Team for the reports submitted. In advance of future Committee meetings, the Chair requested Members to liaise with their respective officers in order to gain a good quality oversight of the reports.

It was anticipated that from October 2022, the Committee would receive more than double the amount of investment reports. Collective consideration would be required to determine the most suitable method to review the reports i.e. to undertake deep dives. R Elwell requested Members to discuss the matter with their respective officers, and to provide feedback through the Officers' group.

RESOLVED - That the report be noted.

18 STANDING ITEM - UPDATE ON EMERGING MATTERS - RACHEL ELWELL/FIONA MILLER/IAN BAINBRIDGE

None.

CHAIR

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Border to Coast Joint Committee

Date of Meeting: 23rd November 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 the Department of Levelling Up, Housing and Communities (DLUHC). 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 two items of expenditure have been committed against this budget head as follows:

- Secretariat support to the Joint Committee from South Yorkshire Pensions Authority. It is estimated that this will be around £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. This work has been commissioned from Burness Paull at an estimated cost of £9,500.

2.7 There may also be a further charge against this budget head for legal work in support of a review of governance arrangements. However, the exact nature of this review and the scope of work is still to be determined.

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: 23rd November 2021

Report Title: Responsible Investment Policies Review (for discussion)

Report Sponsor: CIO – Daniel Booth

1 Executive Summary

1.1 The Responsible Investment Policy and Corporate Governance & Voting Guidelines are reviewed annually and updated as necessary through the appropriate governance channels. The process for review includes the participation of all the Partner Funds to ensure that we have a strong, unified voice.

1.2 Both policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks. Policies have also been reviewed against asset managers and asset owners seen to be RI leaders.

1.3 Responsible Investment workshops are held at regular intervals for the 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, the approach to exclusions and refreshing the priority engagement themes.

1.4 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2022 proxy voting season. Partner Fund Officers have provided feedback on the proposed revisions and suggested amendments. After the Board's review, they will be shared with the Joint Committee for discussion prior to review at Pension Committee meetings.

2 Recommendation

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

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

3 Background

3.1 As a responsible investor we practise active ownership, using our voting rights and engaging with investee companies with the aim being to manage risk and generate sustainable, long-term returns. The Border to Coast Responsible Investment policy sets out our approach to RI and stewardship, and the Corporate Governance & Voting Guidelines sets out the approach and principles to voting.

3.2 The review in 2020 identified the need for a standalone Climate Change Policy which has been developed outside the normal RI Policy review period and was approved by the Board on 21st September and shared with Partner Funds via the Joint Committee.

3.3 The Climate Change Policy includes specific exclusions covering companies with >90% of revenue from thermal coal and tar sands. This is the first time we have had exclusions and considerable engagement was undertaken with Partner Funds on this issue. The approach to exclusions is articulated in the revised RI Policy (Appendix 1).

3.4 The rationale for more specific exclusions in the policy included the enabling of better engagement with private market managers. Exclusion of certain types of investments in Private Markets typically forms part of the side letter negotiations with the investment manager. Where an investor can point to a policy that explicitly excludes certain types of investments there is a greater probability of this being accepted by the investment manager.

3.5 The original priority engagement themes of Governance, Diversity, and Transparency and Disclosure were decided prior to launch in 2018. To reflect our growth and maturity as an organisation and the evolving nature of environmental, social and governance issues, the decision was taken to review the engagement themes (see section 6). The final four themes have been included in the RI Policy.

4 Review process

4.1 The RI policy and Corporate Governance & Voting Guidelines are reviewed annually or when material changes need to be made. The annual review process commenced in July to ensure any revisions are in place ahead of the 2022 proxy voting season.

4.2 Current policies were evaluated by Robeco, our voting and engagement provider, considering the global context and shift in best practice. This included consideration of the recently revised International Corporate Governance Network[1] (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.

4.3 The policies of best-in-class asset managers, and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. Policies assessed included RLAM, LGIM, NZ Super, NEST and Brunel. We have also taken into account the Investment Association Shareholder Priorities for 2021.

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

4.4 There were some areas highlighted as part of last year's review that were due to be addressed during 2021. Transition risk and scenario analysis being one area. Following the ESG/carbon data procurement and appointment of successful providers we will be able to conduct scenario analysis from early next year. We are also looking at how we can support Partner Funds in their TCFD reporting and this has been considered in the procurement.

4.5 One other area was exclusions. As we advocate engagement over divestment, we have previously not had any exclusions in place. Development of the Climate Change Policy has, however, led to the exclusion of companies with >90% of revenues derived from thermal coal or tar sands. Any exclusions must be explicit for them to be adopted by our private market managers. Considerable engagement has been conducted with Partner Funds to reinforce our active stewardship approach and dispel any concerns that we were being influenced by pressure group lobbying.

4.6 RI workshops have been held during the year for the Joint Committee at which we covered the Climate Change Policy, exclusions and engagement escalation. We also covered the engagement theme review process and the potential long list of themes. Feedback was received from Partner Funds on their preferences for key themes to be taken forward.

4.7 A workshop was held with the officers of the Partner Funds on 5th October. The proposed revised RI Policy and Voting Guideline were shared with Officers and feedback and comments were received. Feedback on the RI Policy covered climate change exclusion wording, and on the Corporate Governance & Voting Guidelines comments on diversity. These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the draft policies.

4.8 After considering feedback from the Officer Operation Group, the policies were re-presented to the Investment Committee, which recommended the proposed amendments to the Board. Both policies were approved by the Board on 11th November.

4.9 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2022 proxy voting season. After considering feedback from the Officer Operation Group and the Investment Committee, the revised policies were approved by the Board on 11th November.

4.10 We have asked Partner Funds to complete their review by the end of 2021 so that we are able to carry out this implementation and disclose our voting intentions to companies prior to the peak season.

5 Key changes

5.1 This year's RI Policy review reflects 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 are shown as track changes in the attached Appendix 1.

5.2 Diversity and diversity of thought on boards and senior executive teams are significant for good governance of an organisation. We consider this in our Voting Guidelines, and this also needs to be reflected in the RI Policy. Wording has been added in the 'Introduction' section on the importance of diversity.

5.3 Real estate is an asset class which we are looking to launch towards the end of 2022 and is therefore covered by the revised RI Policy which will be live from January 2022. A new section has been inserted under 'Integrating RI into investment decisions' which covers the RI approach for the fund selection process. A more detailed policy will be developed with assistance from the third-party property manager, once they are in place.

5.4 Due to the development of a standalone Climate Change Policy, the respective section within the RI Policy has been reduced and the new policy signposted.

5.5 We note that there is a lack of consistency across asset owners and managers when it comes to referencing exclusions. Some include exclusions within their main RI Policy whilst others have separate policies for each individual issue. As exclusions have been referenced in the Climate Change Policy, a paragraph has been added to the climate change section (5.6) of the RI Policy covering our approach.

5.6 The priority engagement themes have been reviewed this year using the newly developed framework. This is the first time we have reviewed our priority themes; the process we undertake has been described in the RI Policy and the new themes have been included. More detail is included in section 6.

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

Section	Page	Type of Change	Rationale
1. Introduction	2	Addition	Include wording on diversity/diversity of thought.
5.4 Integrating RI into investment decisions – Real estate	5	Addition	New asset class.
5.6 Climate change	6	Revision	Section edited as Climate Change Policy details our approach.
5.6 Climate change	6	Addition	Wording on exclusions covered in Climate Change Policy.
6. Stewardship	8	Revision	Explanation on UK Stewardship Codes signatory status.
6.2.1 Engagement themes	11	Addition	New section on key engagement themes and review process.

5.8 The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2021 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text. All changes are shown as track changes in the attached Appendix 2.

5.9 We consider diversity in its broadest sense, not just gender or ethnicity to ensure boards have diversity of thought and experience. This has never been more compelling and highlighted by the pandemic with the need for companies to adapt and be innovative in order to be resilient and survive for the long-term. Diversity throughout the organisation is also important to attract and retain staff, improve productivity and profits, and develop a diverse pipeline of talent.

5.10 Gender diversity on boards has improved but Hampton-Alexander Review's initial target year of having 33% female representation on boards was 2020. Research shows that the benefits of diversity are greatest when female representation is above the 30% level, it is therefore appropriate to take a stronger voting stance now across developed markets and to ask for 33%, rather than rounding down to 30%. We will still be flexible in our approach especially for emerging markets and Japan, where the expectation is for companies to have at least one female on the board.

5.11 The Parker review published its report into ethnic diversity of UK boards in 2017. The recommendations were for FTSE 100 companies to have at least one director of colour by 2021, with the same target for FTSE 250 companies by 2024. Although progress has been made companies have had four years to put plans in place. We propose being more specific in our voting intentions by voting against the chair of the nomination committee for FTSE 100 companies where this recommendation has not been met unless there are mitigating factors or plans have been disclosed.

5.12 Lobbying by companies or trade associations in relation to climate change is a real concern. Some trade associations are taking anti-climate positions which not all their members purportedly subscribe to. This is to the detriment of companies whose operations and supply chains are threatened by the climate crisis. To stay below a 1.5°C temperature rise we need companies to align their climate actions and policies to the Paris Agreement. We will therefore support shareholder resolutions regarding lobbying activities in relation to climate change.

5.13 We continue to strengthen the Voting Guidelines on climate change and this year we have added voting against the Chair of the board where a company fails the first four indicators of the Climate Action 100+ Net Zero Benchmark, launched earlier this year.

5.14 Proposed amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below:

Section	**Page**	**Type of Change**	**Rationale**
Diversity	5	Addition	Strengthening position on ethnic diversity at FTSE 100 companies.
Long-term incentives	8	Clarification	Splitting out executives from other employees.
Directors' contracts	8	Clarification	Executive pensions.
Lobbying	10	Addition	Company stance on climate change lobbying.
Shareholder proposals	12	Clarification	Shareholders' best interests.
Climate change	12	Addition	Strengthening voting stance to include CA100+ net zero benchmark indicators.

5.15 The policies were presented to the Board on 11th November and the revisions approved. There is then a period where Partner Funds take the revised policies to their committees to begin their internal alignment process. The revised policies will be effective from 1st January 2022.

6 Engagement theme review

6.1 In 2018 we set our three priority areas for engagement with portfolio companies. These are 'Governance', 'Diversity' and 'Transparency and Disclosure'. Whilst we recognise that these areas continue to be important, we wanted to reflect our growth and maturity as an organisation and review the themes whilst also considering the views of our Partner Funds. We developed an Engagement Themes Framework consisting of four stages, to assist with the process and set our themes for the next strategic period.

6.2 The initial 'long list' of 9 potential themes was shared with the Investment Committee in April and the Board in May. Input from the Partner Funds was received via workshops held for the Officers Operation Group and Joint Committee; this was shared with the Board. Feedback from Partner Funds and the Board was then used to identify four themes to take forward to the final stage (defining objectives and milestones).

6.3 Further work, and analysis was done to determine the overall engagement objective, core objectives to be measured and the approach we will take. Assistance was also provided by Robeco. The four final themes were presented to the Board on 11th November and approved.

6.4 The four final themes with high-level aims are as follows:

6.5 **Low Carbon Transition:** Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. The focus will be on the big carbon emitting companies and banks.

6.5.1 **Engagement objective:** Climate change is a systemic risk that poses significant risks and opportunities for our portfolio investments. In high emitting sectors companies need to adapt and, in some cases, fundamentally change their business models. The aim of this engagement is to focus on the companies in high emitting sectors and banks identified as key to financing the transition to a low-carbon economy, to commit to credible plans to meet net-zero targets.

6.6 **Waste and Water Management:** The focus is on companies assessed as having high exposure to water-intensive operations and/or producing high levels of packaging waste and plastic pollution.

6.6.1 **Engagement objective:** Water is becoming an increasingly scarce and costly resource and a material financial risk for companies and investors. Packaging waste is a huge environmental problem with increasing regulation. This engagement theme will focus on engaging portfolio companies with high exposure to water-intensive operations, exposure to operations producing high levels of packaging waste to develop policies and initiatives to address the issue(s).

6.7 **Social Inclusion through Labour Management:** This theme seeks to blend two of the previous proposed themes around Social Inclusion and Supply Chain Management. The focus is on companies assessed as having high exposure to labour intensive operations, those scoring lower on human capital development and those that are scoring lower on supply chain labour management. This includes engaging with companies on modern slavery policies.

6.7.1 **Engagement objective:** Human capital management and supply chain issues are recognised as financial risks emphasised by the pandemic. Engagement will be with companies with high exposure to labour-intensive operations and lower scoring companies in relation to human capital development and supply chain labour management risk. The aim is to promote sustained, inclusive growth with productive and decent work for all, including elimination of child labour in supply chains.

6.8 **Diversity of Thought:** The focus will be on companies that have been flagged as not having diversity management programs in place, including UK companies that are not meeting the recommendations of the Hampton Alexander and Parker Reviews where we believe we hold sufficient market cap to have an influence.

6.8.1 **Engagement objective:** The need for diversity of thought and experience on boards has never been more compelling. The pandemic has caused massive economic disruption with companies needing to be able to adapt and be innovative in order to be resilient and survive for the long-term. The focus of this engagement is to enhance the diversity of boards reducing the risk of 'group think' leading to better decision making and wider diversity across the organisation to increase the resilience and long-term sustainability of companies. To ensure a pipeline of diverse talent is being developed and utilised, this engagement will also cover improving the approach to building diversity and inclusion in executive committees, other senior leadership roles and throughout the workforce.

7 Financial implications

7.1 Any financial implications are in respect of implementation and fulfilment of the policies. The cost of the external voting and engagement provider and RI initiatives have previously been approved. Additional spend will be in relation to ESG data providers, and ongoing training and development of staff through attendance at conferences and specific training events

8 Risks

8.1 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering our partner funds' objectives. Increasing regulation and pressure from beneficiaries and stakeholders has propelled RI and ESG up the agenda for investors and our Partner Funds. There may be reputational risk if we are perceived to be failing in our commitment of this objective.

8.2 Commitment to RI is becoming increasingly important to the Partner Funds. To maintain collective policies and the strong voice this gives us; we need to ensure that all Partner Funds are in agreement.

8.3 The increasing commitment to engage on diversity may shine a light on Border to Coast's own progress in this area. We note that this is an area of focus for the Board's Remuneration and Nominations Committee.

9 Conclusion

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

10 Author

Jane Firth, Head of Responsible Investment
11th November 2021

11 Supporting Documentation

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

Responsible Investment Policy

Border to Coast Pensions Partnership

November 2021~~0~~

Responsible Investment Policy

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

1. Introduction

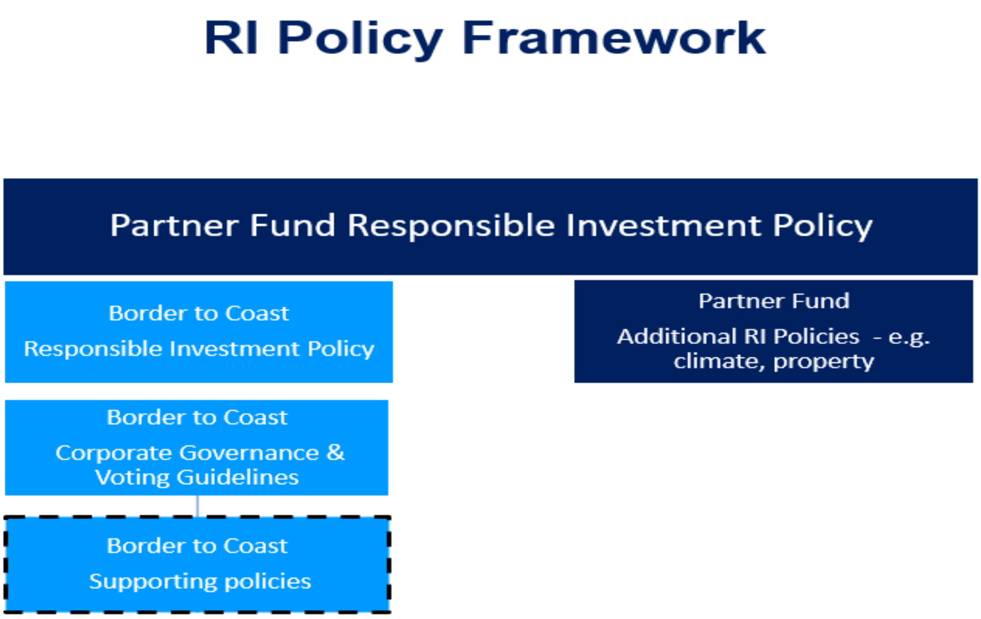
Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds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

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

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

1.1 Policy framework

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



2. What is responsible investment?

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

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

3. Governance and Implementation

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

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

4. Skills and competency

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

5. Integrating RI into investment decisions

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

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

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

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

5.1. Listed equities (Internally managed)

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

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

5.2. Private markets

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

- The assessment of ESG issues is integrated into the investment process for all private market investments.

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

5.3. Fixed income

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

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

5.4. Real estate

Border to Coast is considering making Real Estate investments through both direct properties and real estate funds. For real estate funds, a central component of the fund selection/screening process will be reviewing the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will be energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which will involve procuring a third-party manager and working with them to develop a best-in-class approach to managing ESG risks.

~~5.4.~~5.5. External manager selection

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

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

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

~~5.5.~~5.6. Climate change

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

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

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. 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 the likelihood for success in influencing company strategy and behaviour. 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 and assessed for progress and potential reinstatement at least annually.

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

- ~~Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding.~~
- ~~Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging.~~

- ~~Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.~~
- ~~Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.~~
- ~~Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.~~

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website. ~~Border to Coast is:~~

- ~~Assessing its portfolios in relation to climate change risk where practicable.~~
- ~~Incorporating climate considerations into the investment decision making process.~~
- ~~Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.~~
- ~~Encouraging companies to adapt their business strategy in alignment with a low carbon economy.~~
- ~~Supporting climate related resolutions at company meetings which we consider reflect our RI policy.~~
- ~~Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.~~
- ~~Using the Transition Pathway Initiative (TPI)[2] toolkit to assess companies and inform company engagement and voting.~~
- ~~Voting against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.~~
- ~~Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.~~
- ~~Monitoring and reviewing our fund managers in relation to climate change approach and policies.~~
- ~~Participating in collective initiatives collaborating with other investors including other pools and groups such as the Local Authority Pension Fund Forum (LAPFF).~~
- ~~Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).~~
- ~~Reporting on the actions undertaken with regards to climate change on an annual basis in our TCFD report.~~

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

~~[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.~~

~~Key investment themes pursued by the private markets team include Energy Transition opportunities which support the move to a lower carbon economy.~~

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises~~ces~~ active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, ~~we are a signatory to the UK Stewardship Code[3] and~~we ~~–~~are committed to being a signatory to the 2020 UK Stewardship Code[4] and [have made an application to become a signatory by submitting our 2021 Responsible Investment & Stewardship Report to the Financial Reporting Council] ; we are also a signatory to the UN - supported Principles of Responsible Investment[5].

6.1. Voting

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

6.1.1 Use of proxy advisers

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

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

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's

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

[4] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

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

Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also monitors the services provided by Robeco monthly, with a six monthly and full annual review.

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

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

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

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

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

6.2. Engagement

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

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

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

- Border to Coast and all eleven Partner Funds are members of the LAPFF. Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.
- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[6] breaches or OECD Guidelines[7] for Multinational Enterprises breaches.
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

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

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

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART[8] engagement objectives are defined.

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

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

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

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

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

6.2.1. ~~Escalation~~Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

~~6.2.1.~~6.2.2. Escalation

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

6.3. Due diligence and monitoring procedure

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

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

7. Litigation

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

8. Communication and reporting

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

We also report in line with the TCFD recommendations.

9. Training and assistance

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

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

10. Conflicts of interest

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

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2021~~0~~

1. Introduction

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

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

2. Voting procedure

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

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

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

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

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

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

3. Voting Guidelines

Company Boards

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

Composition and independence

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

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

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

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

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

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

Leadership

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

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

Non-executive Directors

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

Diversity

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

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33~~0~~% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

Succession planning

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

Directors' availability and attendance

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

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

Re-election

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

Board evaluation

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

Stakeholder engagement

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

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

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

Directors' remuneration

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

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary

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

levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

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

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

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

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

• **Annual bonus**

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

• **Long-term incentives**

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

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

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

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

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

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

Corporate reporting

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

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

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

Audit

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

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

Non-Audit Fees

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

Political donations

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

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

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

- **Dividends**

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

- **Voting rights**

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

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

Share Repurchases

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

Memorandum and Articles of Association

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

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

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

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

Virtual Shareholder General Meetings

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

Shareholder Proposals

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

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools~~TPI~~ enable us to~~s~~ assess~~ment of~~ how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.

Investment trusts

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

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

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

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

Border to Coast Pensions Partnership Joint Committee

Date of Meeting: **23 November 2021**

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

Report Sponsor: **Border to Coast CIO – Daniel Booth**

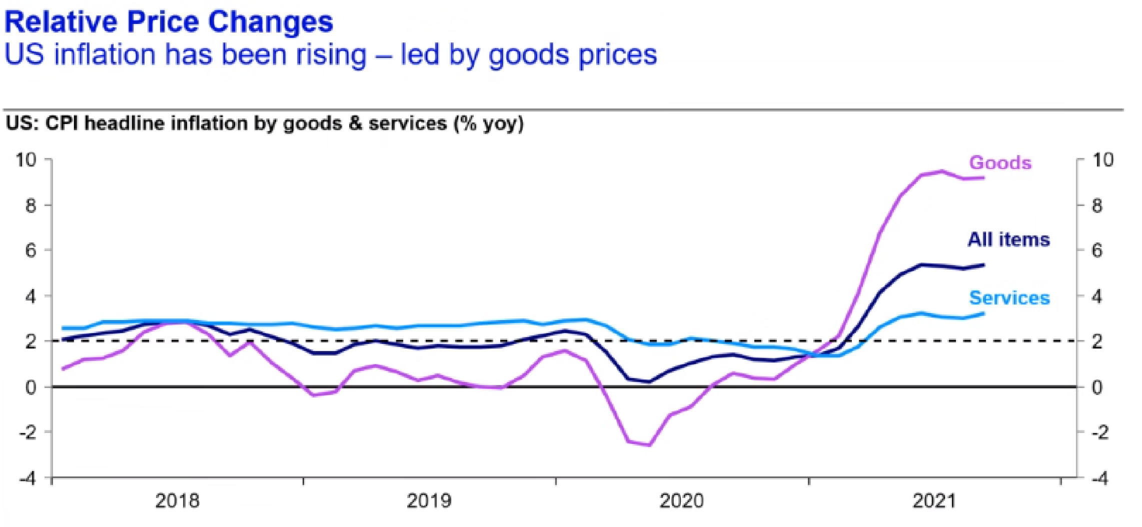
1 Executive Summary

1.1 This report provides an overview of the macroeconomic environment as well as high level details on market and fund performance.

2 Macroeconomic Environment

2.1 Strong cyclical conditions following record amounts of monetary and fiscal stimulus combined with elevated levels of cash on household and corporate balance sheets. This has led to demand outstripping supply with resultant rising prices (inflation) and inflation expectations. With elevated inflation levels above central bank targets this is starting to put pressure on banks to react and as a result we have seen some banks raise interest rates (e.g. New Zealand) or discontinue quantitative easing programs roll off (e.g. United Kingdom). The speed and intensity of monetary tightening versus market expectations will be a key determinate for asset price performance in 2022.

2.2 *US Inflation:* Goods prices are now rising 9% YoY with Service process rising around 3% YoY (in line with pre-COVID trend). In the past decades we had seen falling goods prices (due to globalisation) but COVID has reversed this trend with goods prices leading and service prices lagging although likely a temporary factor. Nevertheless, the all-items CPI number has risen substantially, and it is not only goods prices.



Source: Invesco

2.3 *Eurozone:* seeing the same trend as the US with goods prices (4-5%) now leading price increases having previously lagged price index. Similar picture in UK but less differentiation.

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Source: Invesco

2.4 *Asia:* same relative inflation trend in Japan, albeit with much lower aggregate inflation level as seeing deflation in service prices. In China absolute levels of inflation are low and relative price changes are distorted by falling pork prices following 2019/20 swine flu cull.

2.5 *Money Supply:* table below shows cumulative broad money growth across different countries as well as an estimate of the excess amount of money once you've subtracted real GDP and average annual growth in the money supply. One can see the US had cumulative 35.6% M2 growth since Feb 2020, so the total stock of money increased by over one third in 18-mth period! The US and Israel are likely to see lingering high levels of inflation for several years as a result and whilst the UK isn't as high we've still experienced a 19% increase in our broad money measure (M4x). Monetary growth was more constrained in Asia and Switzerland and China in particular running tight monetary policy once subtract real GDP and average monetary growth.

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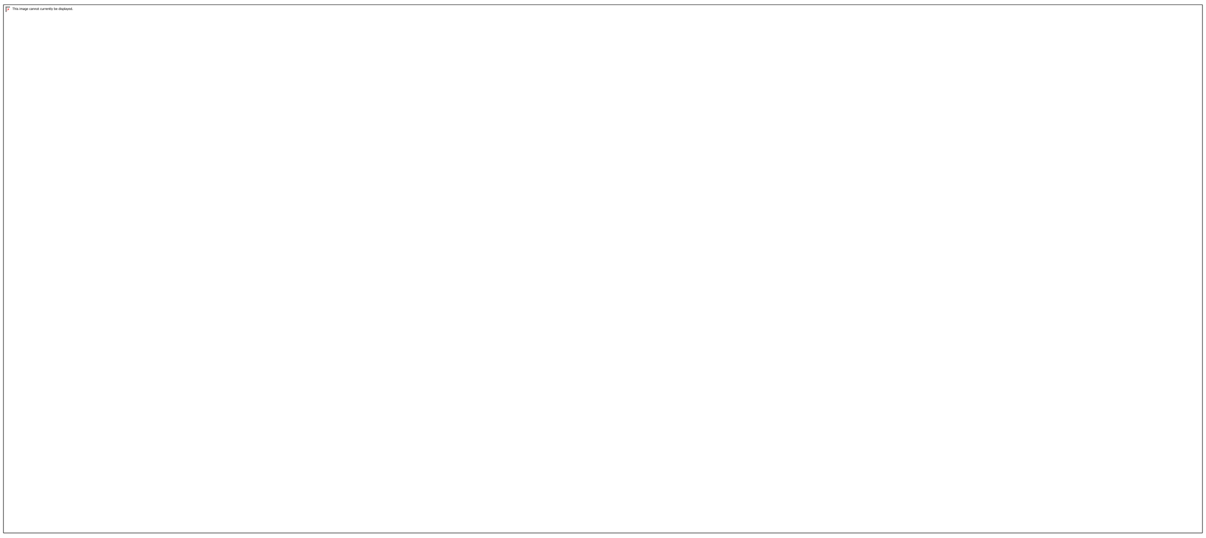
Source: Invesco

2.6 Excess Money Supply growth is correlated with strong performance across Real Assets (including Public Equity, Real Estate and Commodities). Economist John Greenwood from Invesco estimates asset prices are still circa 10% behind levels of monetary growth.

2.7 Demand is outstripping Supply resulting in rising prices across several sectors. US housing demand is exceeding new supply (depressed post-08 GFC) leading to increasing prices and increasing rents with the effect of the latter lagging in the US CPI data:

Source: Bridgewater

2.8 *Transportation*: more ships than ever before, ports operating around the clock, shortage of port workers, truck drivers (for onward movement) and warehouse / distribution staff (for unloading) and the factors limiting transportation capacity seem likely to remain in place at least until mid-2022 and, in some cases, well into 2023 or beyond. Ship orders are increasing following a decade of declining investment but new capacity will take years to deliver:



Source: Bridgewater

- Delays unloading at Ports have increased despite the largest US Port (L.A.) operating around the clock following a 30% increase in imports:

Source: Bridgewater

- Shortage of trucks once offloaded into ports with the demand for trucks up whilst in the US truck tonnage index is actually flat due to a shortage of drivers and trucks (and for the latter new orders have a 1-year wait time due to semiconductor shortage). The existing shortage of truck drivers in both US and UK has been exacerbated by COVID so relative wages will need to rise to attract workers from other sectors:

Source: Bridgewater

- In the US understaffed warehouses / distribution centres are increasing unloading / wait times for trucks:

Source: Bridgewater

2.9 The monetarization of fiscal deficits (i.e. the creation of new money to fund fiscal programs) has transformed Private Sector balance sheets, which now have both the means (income) and incentive (record low real rates) to increase spending. This will likely more than offset any reduction in government spending so the prior policy response will continue to reverberate in the economy well after the peak in fiscal spending. This is likely bullish for the economy, although less supportive for markets, as investors spend down some of the excess cash that has been supporting asset prices.

3 Market Performance

3.1 *Equity Markets*: equity markets have performed strongly given stronger than expected growth with subsequent upward revisions to corporate earnings. As of end October 2021, the developed equity market MSCI World (GBP) and all country equity market MSCI ACWI (GBP) returned 19.6% and 16.9% respectively, with the latter impacted by emerging markets underperformance (in turn caused by negative Chinese equity returns). 5 and 10 year equity returns are above long-term expectations whereas longer term return history since 1987 is more in-line with asset class expectations:

INDEX PERFORMANCE — GROSS RETURNS (%) (OCT 29, 2021) / **FUNDAMENTALS (OCT 29, 2021)**

	1 Mo	3 Mo	1 Yr	YTD	3 Yr (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)	Since Dec 31, 1987 (Annualized)	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	3.96	5.39	33.05	19.55	16.06	13.41	14.67	9.69	1.65	23.82	19.54	3.37
MSCI Emerging Markets	-0.65	1.02	10.68	-0.28	10.08	7.27	6.98	11.65	2.24	15.08	12.67	1.93
MSCI ACWI	3.41	4.87	30.04	16.88	15.33	12.67	13.76	9.57	1.72	22.33	18.40	3.10

Source: MSCI

4 Fund Performance

4.1 The tables below show fund absolute and relative performance (versus benchmark), since inception, up until the end of September 2021 (current reporting period):

Period (end Sept 2021)	**ITD (% p.a.)**		
Fund Name	Fund	Benchmark	Relative
Internal Equity Composite	**6.8%**	**6.1%**	**0.7%**
UK Listed Equity	3.4%	2.6%	0.9%
Overseas Developed Equity	11.3%	10.3%	1.1%
*Emerging Market Equity ***	8.2%	10.1%	-1.9%
External Equity Composite	**13.8%**	**12.9%**	**0.9%**
UK Listed Equity Alpha	10.2%	6.8%	3.4%
Global Listed Equity Alpha	15.3%	15.6%	-0.2%
Fixed Income Composite	**6.8%**	**5.5%**	**1.3%**
Sterling Investment Grade Credit	7.1%	5.5%	1.5%
*Sterling Index Linked Bonds **	1.0%	0.4%	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 above benchmark since launch, with positive relative performance from 5 of our 6 internal portfolios. The outperformance was focused on stock selection (higher performance persistence) and achieved with a low tracking error and a high risk-adjusted return ratio (an Information Ratio of 1). Our Emerging Market fund has been restructured with the non-China allocation managed internally and the China allocation managed externally, which we believe will be accretive for investors, as they benefit from a large, local research team covering a deep and innovation growth market.

4.3 *External Equity composite*: (asset weighted) delivered 0.9% outperformance over benchmark with strong outperformance from our UK Alpha fund whilst our Global Alpha fund was broadly in-line with benchmark. Year-to-date outperformance has been driven by the funds' Value managers and our rebalancing activity (from Growth and into Value) has been accretive for our UK Alpha fund.

4.4 *Fixed Income composite*: produced strong outperformance and was 1.3% above benchmark with both our underlying funds benefiting from credit spread compression.

5 Conclusion

5.1 The excessive rates of monetary growth will likely lead to prolonged periods of elevated inflation in those countries enacting larger scale monetary easing. 2022 inflation will remain elevated with multiple areas of the economy experiencing significant supply side constraints (i.e. semi-conductors, transportation, energy etc). The combination of strong cyclical conditions (supported by the remnants of record monetary and fiscal stimulus and record levels of household and corporate cash balances) and longer-term structural trends (higher corporate taxes, RI / ESG costs and unit labour costs) mean upside risks to inflation. 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 you're likely to see higher future levels of risk and performance dispersion. Sustained elevated levels of inflation in 2022 will provide central banks with a policy dilemma and how their tightening cycle evolves versus market expectations will determine the future market outcome.

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10th November 2021

Important Information

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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Agenda Item 11a

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Agenda Item 11c

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Commonly-Used Abbreviations

September 2021

ACS	Authorised Contractual Scheme, the collective investment scheme used by Border to Coast for asset pooling
AUM	Assets Under Management
BPS (Basis points)	One basis point is a unit equal to one hundredth of a percentage point.
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
COO	Chief Operating Officer
COP	Conference of Parties, a UN conference on climate change
CPI	Consumer Price Index
CSR	Corporate Social Responsibility, a term under which companies report their social, environmental and ethical performance
DAA	Dynamic Asset Allocation
DGF	Diversified Growth Fund
EM	Emerging Markets
EMEA	Europe, Middle East & Africa
ESG	Environmental, Social, and Governance – factors in assessing an investment's sustainability
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTA	FTSE Actuaries UK Gilts Index Series
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Practice.
GEM	Global Emerging Markets

GRESB	Global ESG Benchmark for Real Assets
HMT	Her Majesty's Treasury
Infra	Infrastructure
IRR	Internal Rate of Return
ISS	Investment Strategy Statement
JC	Joint Committee
LGA	Local Government Association
LGPS	Local Government Pension Scheme
LAPFF	Local Authority Pension Fund Forum
LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LPB	Local Pension Board
LSE	London Stock Exchange
MAC	Multi Asset Credit
MHCLG	Ministry of Housing, Communities and Local Government
MSCI	formerly Morgan Stanley Capital International, publisher of global indexes
NED	Non-Executive Director
NT	Northern Trust, Custodian
OECD	Organisation for Economic Co-operation and Development
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PRI	The UN-supported Principles for RI
RI	Responsible Investment
RPI	Retail Price Index
S&P	Standard & Poor's, ratings agency and provider of equity indices

S151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board
SDG	the UN's Sustainable Development Goals
SILB	Sterling Index Linked Bonds
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
TCFD	Taskforce on Climate Related Financial Disclosures
TER	Total Expense Ratio
TPR	The Pensions Regulator

Commonly-Used terms

September 2021

A

- Active Management
  - Appointing investment professionals to manage the performance of the Fund's mandates, making buy, hold and sell decisions about the assets with a view to outperforming the market.

- Active Member
  - A current employee who is contributing to the pension scheme.

- Actuary
  - An independent professional who advises the Council in its capacity as Administering Authority on the financial position of the Fund.

- Actuarial Valuation
  - The Fund's actuary carries out a valuation every three years and recommends an appropriate rate of contributions for each of the Fund's participating employers for the following three years. The valuation measures the Fund's assets and liabilities, with contribution rates set according to the Fund's deficit or surplus.

- Additional Voluntary Contributions (AVCs)
  - An option available to active members to build up a pot of money which is then used to provide additional pension benefits. The money is invested separately with one of the Fund's external AVC providers.

- Administering Authority
  - The LGPS is run by local Administering Authorities. An Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

- Admission/Admitted Body
  - An organisation whose employees can become members of the Fund by virtue of an admission agreement made between the council in its capacity as Administering Authority and the organisation. It enables contractors who take on council services to offer staff transferred to the organisation continued membership of the LGPS.

- Asset Allocation
  - The apportionment of the Fund's assets between different types of investment (or asset classes). The long-term strategic asset allocation of the Fund will reflect the Fund's investment objectives and is set out in the Investment Strategy Statement.

- Asset Pooling

    - In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale, as requested by MHCLG: 'significantly reducing costs whilst maintaining investment performance'.

- Authorised Contractual Scheme (ACS)

    - A collective investment scheme used by BCPP. An ACS is a form of investment fund that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds, and quoted equities. Regulated by the Financial Conduct Authority, it is "tax transparent"; making it particularly useful for pooling pension assets.

B

- Benchmark

    - A measure against which the investment policy or performance of an investment manager can be compared.

- Bond

    - A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

- Book cost

    - The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from market value.

- Broker

    - An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

- Border to Coast Pension Partnership

    - The Fund's chosen asset pool. Border to Coast has 11 Partner Funds who collectively have around £45bn of assets. The Partner Funds have appointed a Board of Directors, chaired by Chris Hitchen, which is responsible for ensuring that Border to Coast is run effectively and in line with the guiding principles set by the shareholders. The Chief Executive Officer, Rachel Elwell, is responsible for the day to day running of Border to Coast along with her team.

- Border to Coast Joint Committee

    - As part of their oversight, Border to Coast Partner Funds formed a Joint Committee which consists of the Chairs of each of the Partner Fund Pension Committees together with other non-voting representatives.

C

- CARE (Career Average Revalued Earnings)

    - From 1 April, 2014, the LGPS changed from a final salary scheme to a Career Average (CARE) scheme. The LGPS remains a defined benefit scheme but benefits built up from 2014 are now worked out using a member's pay each scheme year rather than the final salary at leaving.

- Cash Equivalent Value (CEV)

    - This is the cash value of a member's pensions rights for the purposes of divorce or dissolution of a civil partnership.

- Consumer Price Index (CPI)

    - A method of measuring the changes in the cost of living, similar to the Retail Price Index. Since April 2011 LGPS pensions are increased annually in line with movement in the Consumer Price Index during the 12 months to the previous September.

- Commutation

    - A scheme member may give up part or all of the pension payable from retirement in exchange for an immediate lump sum.

- Convertible Shares

    - Shares that include an option for holders to convert into a predetermined number of ordinary shares, usually after a set date.

- Corporate Governance

    - The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

- Covenant

    - The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term

- Creditors

    - Amounts owed by the pension fund.

- Custodian
    - A financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange. Custody is currently provided to the Fund by Northern Trust.

<u>D</u>

- Death Grant
    - A lump sum paid by the Fund to the dependents or nominated representatives of a member who dies.

- Debtors
    - Amounts owed to the pension fund.

- Deferred Member/Pensioner
    - A scheme member who has left employment or otherwise ceased to be an active member of the scheme who retains an entitlement to a pension from the Fund.

- Deficit
    - The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

- Defined Benefit Scheme
    - A pension scheme like the LGPS where the benefits that will ultimately be paid to the employee are fixed in advance and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the future pension promise.

- Denomination
    - The face value of a bank note, coin or postage stamp, as well as bonds and other fixed-income investments. Denomination can also be the base currency in a transaction or the currency a financial asset is quoted in.

- Derivative
    - Used to describe a specialist financial instrument such as options or futures contracts. These financial instruments are agreements to buy or sell something, under terms laid out in a contract.

- Designating Body
    - Organisations that can designate employees for access to the LGPS. Employees of town and parish councils, voluntary schools, foundation schools, foundation special schools, among others, can be designated for membership of the scheme.

- Discretion
    - The power given by the LGPS to enable a participating employer or Administering Authority to choose how they will apply the scheme in respect of several its provisions. For some of these discretions it is mandatory to pass resolutions to form a policy as to how the provision will apply. For the remaining discretionary provisions, a policy is advised.

- Direct Property
    - Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.

- Diversified Growth Funds (DGF)
    - An alternative way of investing in shares, bonds, property and other asset classes; DGFs are funds that invest in a wide variety of asset classes in order to deliver a real return over the medium to long-term. The Fund's DGF is managed by BlackRock.

- Dividend
    - Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

- Dividend Yield
    - An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

E

- Employer Contribution Rates
    - The percentage of an employee's salary participating employers pay as a contribution towards that employee's LGPS pension.

- Employer Covenant
    - The covenant is an employer's legal obligation and financial ability to support their defined benefit (DB) obligation now and in the future.

- Emerging Markets
    - There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

- Equities
    - Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

- ESG
    - ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing an investment's sustainability

F

- Fiduciary Duty
    - Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

- Financial Instruments
    - Tradable assets of any kind, which can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.

- Final Salary Scheme
    - An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

- Fixed Interest Securities
    - Investments, mainly in Government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date that can be traded on a recognised stock exchange in the meantime.

- FTSE All-Share
    - An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

- Fund of Funds (FoF)
    - A fund that holds a portfolio of other investment funds.

- Futures Contract
    - A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law

G

- Gilts
    - The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

- Guaranteed Minimum Pension (GMP)
    - The LGPS guarantees to pay a pension that is at least as high as a member would have earned had they not been contracted out of the State Earning Related Pension Scheme (SERPS) at any time between 6 April 1978 and 5 April 1997. This is called the guaranteed minimum pension (GMP).

H

- Hedge
    - Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

I

- Index
    - A calculation of the average price of shares, bonds or other assets in a specified market to provide an indication of the average performance and general trends in the market.

- Internal Rates of Return (IRR)
    - The internal rate of return (IRR) is a metric used to estimate the profitability of potential investments. Generally, the higher an IRR, the more desirable an investment is to undertake.

L

- Local Government Pension Scheme (LGPS)
    - The LGPS is collectively the largest public sector pension scheme in the UK, which provides DB benefits to employees of local government employers and other organisations that have chosen to participate.

- Local Pension Board (LBP)
    - Since April 2015, each Administering Authority has been required to establish and operate a Local Pension Board. The Pension Board is responsible for assisting the Administering Authority in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator. The Board is made up of equal representation from employer and scheme member representatives.

M

- Mandate
    - The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

- Market Value
    - A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

- Maturity
    - A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

- Myners Principles
    - A set of principles based on Paul Myners' 2001 report, Institutional Investment in the United Kingdom. The Myners' principles for defined benefit schemes cover:
        - Effective decision-making
        - Clear objectives
        - Risk liabilities
        - Performance assessment
        - Responsible ownership
        - Transparency and reporting.

O

- Option
    - The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

- Ordinary Shares
  - An ordinary share represents equity ownership in a company and entitles the owner to vote at the general meetings of that company and receive dividends on those shares if a dividend is payable.

P

- Partner Funds
  - The Fund’s chosen asset pool, BCPP, has 11 Partner Funds - Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.

- Passive Management
  - A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index. Compare with active management.

- Pension Liberation Fraud
  - Members with deferred benefits may be approached by companies offering to release funds early from these benefits. The Pensions Regulator has advised pension funds to make members aware of the potential warning signs of pension liberation fraud.

- Pensions Online
  - The Fund’s online portal where scheme members may view their pensions records, complete retirement calculations, and update personal details.

- Pensions Regulator
  - The Pensions Regulator (TPR) s the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

- Pooled Funds
  - Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

- Pooling in the LGPS
    - Central government requires local authorities to pool their pension assets, to achieve four principles:
        - Cost savings through economies of scale
        - Improved governance
        - Improved approach to responsible investment
        - Improved ability to invest in infrastructure

- Prepayment
    - The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

- Present Value
    - The value of projected benefit payments, discounted back to the valuation date.

- Property Unit Trusts
    - Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties

- Proxy Voting
    - Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Q

- Quantitative Easing
    - Quantitative easing (QE) is when a central bank creates new money electronically to buy financial assets like Government bonds with the aim of directly increasing private sector spending in the economy and returning inflation to target.

R

- Real Return or Real Discount Rate
    - A rate of return or discount rate net of (CPI) inflation.

- Related Party Transactions
    - This is an arrangement between two parties joined by a special relationship before a deal, like a business transaction between a major shareholder and a corporation.

- Responsible Investment (RI)
    - Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership through voting and engagement. RI can help deliver sustainable, long-term returns for investors.

- Retail Price Index
    - A method of measuring the changes in the cost of living. It reflects the movement of prices covering goods and services over time. Until April 2011, the amount by which LGPS pensions were increased annually was based on movement in the Retail Price Index during the 12 months to the previous September. From April 2011, the Government changed the amount by which pensions increase from Retail Price Index to Consumer Price Index (CPI).

- Return
    - The total gain from holding an investment over a given period, including income and increase or decrease in market value.

- Risk
    - The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

- Rule of 85
    - Under previous LGPS regulations, when a member elected to retire before age 65, the Rule of 85 test was used to find out whether the member retired on full or reduced pension benefits. If the sum of the member's age and the number of whole years of their scheme membership was 85 or more, benefits were paid in full. If the total was less than 85, the benefits were reduced. The Rule of 85 was abolished on 1 October, 2006 - however, members contributing to the LGPS prior to this date will have some or all of their pension benefits protected under this rule.

S

- Security
    - An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity.

- Scheduled Body
    - An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

- Section 13 Valuation
    - In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Ministry of Housing, Communities and Local Government (MHCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

- Section 151 Officer
    - The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the County Council and the preparation of the County Council's Statement of Accounts.

- Socially Responsible Investment (SRI)
    - Investments or funds containing stock in companies whose activities are considered ethical.

- Spot Rate
    - The price quoted for immediate settlement on a commodity, security or currency. It is based on the value of an asset at the moment of the quote, which in turn is based on how much buyers are willing to pay and how much sellers are willing to accept depending on factors such as current market value and expected future market value.

- State Pension Age (SPA)
    - The earliest age at which State Pension can be paid, which different to the earliest age LGPS may be claimed. Under the current law, the State Pension age is due to increase to 68.

- Stock
    - A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or equity

- Stock Lending
    - This is loaning a stock, derivative or other security to an investor or firm. It requires the borrower to put up collateral (cash, security or a letter of credit). When stock is loaned, the title and the ownership is transferred to the borrower and title is returned at the end of the loan period.

T

- TCFD
    - The Taskforce on Climate Related Financial Disclosures was set up to develop voluntary, consistent, climate related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders. It is expected that MHCLG will consult on mandatory TCFD disclosures in the LPGS by the end of 2021.

- The Pension Advisory Service (TPAS)
    - The Pensions Advisory Service (TPAS) gives information and guidance to members of the public on state, company and personal pensions. It helps any member of the public who has a problem with their occupational or private pension arrangement. TPAS is an executive non-departmental public body, sponsored by the Department for Work and Pensions.

- Tracking Error
    - An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking

- Transaction Costs
    - Those costs associated with managing a portfolio, notably brokerage costs and taxes.

- Transfer Value
    - A transfer value is a cash sum representing the value of a member's pension rights.

- Transferred Service
    - Any pension that members have transferred into the LGPS from a previous pension arrangement that now counts towards their LGPS membership.

- Transition
    - To move from one set of investment managers to another.

U

- UK Stewardship Code
    - A code first published by the FRC in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active

and engaged in corporate governance matters in the interests of their beneficiaries. The Code was revised in 2020.

- Underwriting
    - The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).

- Unit Trusts
    - A unit trust is a pooled fund in which small investors can buy and sell units. The pooled fund purchases investments and the returns are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually

- Unrealised gains/losses
    - The increase or decrease in the market value of investments held by the fund since the date of their purchase.