

Public Document Pack



PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

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

Date: Tuesday, 21 March 2023

Time: 12.30 pm

Membership:

Chair:-

Cllr Doug McMurdo Bedfordshire Pension Fund

Vice Chair

Cllr Patrick Mulligan North Yorkshire Pension Fund

Membership:-

Cllr Mel Worth	Cumbria Pension Fund
Cllr Mark Abley	Durham Pension Fund
Cllr Nigel Wilkinson	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Eric Polano	Teesside Pension Fund
Cllr John Mounsey	South Yorkshire Pension Fund
Cllr Nick Harrison	Surrey Pension Fund
Cllr Anne Walsh	Tyne & Wear Pension Fund
Cllr Christopher Kettle	Warwickshire Pension Fund

Scheme Member Representatives

Linda Bowen	East Riding 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

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Minutes of the Border to Coast Joint Committee

Wednesday, 30 November 2022 - Border to Coast Offices, Toronto Square, Leeds,
LS1 2HJ

Present

Members

Councillor Doug McMurdo (Chair)
Councillor Mark Abley, Councillor Nick Harrison, Councillor
Christopher Kettle, Councillor Eddie Strengiel and Councillor
Anne Walsh

CoOpteePresentList (Scheme Member Representatives)

Border to Coast Ltd Representatives

Rachel Elwell, Councillor David Coupe, Chris Hitchen,
Graham Long 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, Jo Stone, George Graham,
Claire Machej, Neil Mason, Victoria Moffett, Tom Morrison
and Nick Orton

Statutory Officer Representative(s)

Apologies were received from

Councillor Eric Polano, Councillor John Mounsey, Councillor Nigel
Wilkinson and Councillor Mel Worth

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting. Apologies were noted as above. The Chair noted that the meeting was not quorate, and members assented to discuss the business on the agenda subject to formal ratification of any decisions at the next meeting.

2 MINUTES OF THE MEETING HELD ON 29TH SEPTEMBER 2022

The minutes were received, and members asked to approve.

RESOLVED – The minutes of the meeting held on 29th September 2022 be agreed as a true record.

3 APPOINTMENT OF A SCHEME MEMBER REPRESENTATIVE

A report was submitted detailing the results of the elections for a Scheme Member Representative and a consultation exercise in relation to term limits for Scheme Member representatives.

RESOLVED

- To agree the appointment of Lynda Bowen as a Scheme Member Representative
- To accept the view of consultees that there should be no term limits for Scheme Member representatives.

4 JOINT COMMITTEE BUDGET

A report was presented updating the Joint Committee on the position in relation to its budget which had been set at £40,000 in March 2022., To date £25,300 had been spent, the majority towards the governance review. Members were informed this is consistent with the budget in previous years.

It was noted that, 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. In line with the cost sharing principles these costs will be shared equally between the Partner Funds. Considering committed and forecast expenditure for the committee secretariat and legal advice in relation to documentation for the Global Property Fund it was highlighted that there was a risk of an overspend estimated at around £5k to £10k in the current year, which would have to be recovered from Partner Funds based on equal shares.

RESOLVED – That the report be noted.

5 GOVERNANCE REVIEW - UPDATE

A report was presented updating the Committee on progress with the Governance Review which was now reaching its final stages. The Review had focussed on the main three governance documents that underpin the relationship between Border to Coast and the Partner Funds, as both investors and shareholders. These are the Inter Authority Agreement, the Shareholders' Agreement, and the Articles of Association.

The latest versions of these documents together with an accompanying legal advice note have now been circulated to Partner Funds in order for them to seek approval through their own governance arrangements.

There was some ongoing work to confirm that the documents fully accommodate the change in administering authority for the Cumbria Pension Fund as a result of local government reorganisation but it was felt at this stage that they had been as far as possible “future proofed” in this regard.

While noting that it was impractical to complete the process until early 2023 the Joint Committee did note the point that certain changes which were required by the FCA needed to be in place before the end of the financial year.

RESOLVED

- To note the position on the review of the governance.

6 RESPONSIBLE INVESTMENT POLICIES ANNUAL REVIEW 2022

A report was submitted which summarised the responsible investment policies annual review process for 2022 and the various revisions to policies undertaken. Members were asked to comment on the proposed revisions and support the submission of the revised policies to individual Pensions Committees for adoption or endorsement.

Cllr Nick Harrison of Surrey Pension Fund questioned the rationale for the revenue threshold for exclusion of pure coal and tar sands companies and asked why it was not lower, given the risk that such holdings could rapidly become stranded assets. In response it was explained that such factors would be considered within the analysis undertaken by portfolio managers, and this was not a single point decision. In addition, the position in emerging markets needs careful consideration with respect to a just transition and may take much longer to adapt than in developed markets. The position had to reflect a global rather than solely a developed market picture.

Members also welcomed the inclusion of a specific focus on human rights within the review. There was also discussion about the different practices and sensitivities which arise in different markets and the need to maintain flexibility in policy to address issues in a manner appropriate to the context.

Members noted that the Company would publish the revised policies in January in line with the Stewardship Code.

RESOLVED:

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

7 RESPONSIBLE INVESTMENT UPDATE

A report was presented setting out recent work undertaken in relation to Responsible Investment and in particular drawing attention to the publication of the

Net Zero Road Map and the positive assessment from the Principles for Responsible Investment.

RESOLVED:

- That the report be noted.

8 SUMMARY OF INVESTMENT PERFORMANCE AND MARKET RETURNS

A report was submitted which summarised the performance of the various investment propositions over the latest quarter. Discussion included the impact of higher interest rates and the strength of the US Dollar.

Members raised concerns over China's inflation due to the economic downturn in part caused by issues relating to a zero-Covid policy and new localised restrictions and the variance of vaccination impact in comparison to the western practices. The expectation was that China would gradually ease their zero-covid policy but without an improvement in vaccine uptake this could result in a significant increase in Covid deaths.

RESOLVED – That the report be noted.

The Chair thanked John Harrison on behalf of the Joint Committee, Partners Funds and scheme members for the work he has undertaken during his second period as Interim Chief Investment Officer.

9 DEVELOPMENT OF INVESTMENT CAPABILITIES

A report was submitted which summarised the development of investment capabilities, including new funds, additional capabilities, and changes to existing funds. The Partner Funds have been undertaking reviews of their investment strategy alongside the results of their 2022 Actuarial Valuation. They are relatively early in the review cycle and, whilst some reviews are complete, the majority of these are progressing in the coming months. The report included the regular quarterly update on the progress of asset transition which remained largely in line with plan.

In discussion the following issues were highlighted.

- Continued work on UK Opportunities, Green, Social and Sustainable Bonds, Emerging Markets Alpha and Real Estate propositions
- Removal from the plans of the potential Regional Equity Alpha fund
- The plan to revisit income distribution and factor/ESG index tracking
- An examination of currency hedging, which would be prioritised over equity hedging
- Evolution of Responsible Investment strategy and review of Climate Change strategy
- The potential to launch the next iteration of Climate Opportunities in 2024 instead of 2025 given the demand and availability of market opportunities.

RESOLVED:

- That the report be noted
- Members recommended the plan for approval by Shareholders

10 **ALTERNATIVES SERIES 2B**

A report was submitted that provided an overview of the proposed offerings for Series 2B of the alternatives programme following discussions internally and with Partner Funds.

Following consultation with Partner Funds, their consultants, and advisers, it is considered appropriate to propose follow-on offerings to the existing Series 2A programmes with no changes to their strategies, parameters, and benchmarks. This does not include Climate Opportunities which is currently a 3-year programme.

There is consideration being given developing a UK Opportunities offering because of Partner Fund demand and the recent government consultation on "Levelling Up". This will be subject to further work and the Joint Committee will be updated in the future.

There are sufficient resources to cover the extension of the existing offerings. Additional resources will be required for the potential UK Opportunities offering and to support an increase in monitoring and oversight requirement as the size of the Alternatives programme grows.

There was a full review of legal documentation as part of the Series 2A launch. This will be updated by Border to Coast for Series 2B but no material changes are expected.

The timeline is achievable, and it is important that the target date of 1 April 2023 is met so that there is no gap in Border to Coast deploying capital on behalf of Partner Funds.

RESOLVED:

- That the report be noted.
- That the Committee approve delegation to Officers the authority to review the contractual documentation required to support the Alternatives Series 2 launch.

11 **CEO REPORT**

The Company's CEO submitted a report updating the Committee on activity across the whole range of the Company's activity much of which was covered in detail elsewhere on the agenda.

RESOLVED:

- That the report be noted.

12 PERFORMANCE REPORT

A report was submitted which summarised the performance of the various investment propositions over the latest quarter. This report included details of private markets performance for the first time. Key issues covered in the discussion included:

- Details of the addition of emerging market specialists to the Global Equity Alpha fund.
- Details of the performance and actual complementarity of the various managers in the Global Equity Alpha fund which were a concern for a number of Partner Funds.
- The performance of the private market vehicles.

RESOLVED – That the report be noted.

13 STANDING ITEM - UPDATE ON EMERGING MATTERS

There were no further matters to update the Committee on.

CHAIR



BCPP Joint Committee

Date of Meeting: 21st March 2023

Report Title: Schedule of Future Meetings

Report Sponsors: Jo Stone – Head of Governance (SYPA)

1.0 Executive Summary:

1.1 This report sets out the proposed schedule of future meetings for the Joint Committee through to the 2025/26 Municipal Year, confirming the dates previously agreed.

2.0 Recommendations:

2.1 Members to note the proposed dates for meetings of the Joint Committee and member workshops for the next three years as set out in the body of this report.

3.0 Background:

3.1 Each March the Joint Committee agrees a programme of meetings for the coming three years. This report updates the previously agreed programme and adds a further year. The programme also includes the two scheduled Responsible Investment Workshops which allow members of the Joint Committee to provide input into the development of the Company's policies in this area.

3.2 The programme has been designed to maximise the benefits from members travel, for example by meeting at the same time as the Border to Coast conference.

3.3 The proposed programme is set out for approval in Appendix A. Members are asked to note that there have been changes to the March and November dates across all years in order to better align the meeting timetable with meetings of the Company's Board. The summer responsible investment workshop has now

been moved to the same day as the June meeting to accommodate other events that need to take place alongside the Company's AGM.

4.0 Report Author:

Jo Stone
jstone@sypa.org.uk
01226 666418

Further Information and Background Documents:

Appendix A: Border to Coast Joint Committee – Schedule of Meetings and Other Significant Events



Border to Coast Joint Committee Schedule of Meetings and Other Significant Events

2023/24 Municipal Year		2024/25 Municipal Year		2025/26 Municipal Year	
Date of Meeting	Review of Performance for Quarter Ended	Date of Meeting	Review of Performance for Quarter Ended	Date of Meeting	Review of Performance for Quarter Ended
Tuesday 13 th June 2023 (Annual Meeting and Responsible Investment Workshop)	31 st March 2023	Tuesday 18 th June 2024 (Annual Meeting and Responsible Investment Workshop)	31 st March 2024	Tuesday 17 th June 2025 (Annual Meeting and Responsible Investment Workshop)	31 st March 2025
Thursday 28 th Sept. 2023	30 th June 2023	Thursday 26 th Sept. 2024	30 th June 2024	Thursday 25 th Sept. 2025*	30 th June 2025
Tuesday 14 th November 2023 (Responsible Investment Workshop) Virtual		Tuesday 12 th November 2024 (Responsible Investment Workshop) Virtual		Tuesday 11 th November 2025 (Responsible Investment Workshop) Virtual	
Tuesday 28 th Nov. 2023	30 th Sept 2023	Tuesday 26 th Nov. 2024	30 th Sept 2024	Tuesday 25 th Nov. 2025	30 th Sept 2025
Tuesday 26 th March 2024	31 st Dec 2023	Tuesday 25 th March 2025	31 st Dec 2024	Tuesday 24 th March 2026	31 st Dec 2025

Where meetings are in person all meetings will take place in Leeds and timings will be set to allow for travel.

*Subject to confirmation of the date of the Border to Coast Annual Conference



Border to Coast Joint Committee Schedule of Meetings and Other Significant Events

Note:

The Annual General Meetings of the Border to Coast Operating Company will, subject to final confirmation by the Company take place on the following dates

18th July 2023 to approve the report and accounts for 2022/23

23rd July 2024 to approve the report and accounts for 2023/24

22nd July 2025 to approve the report and accounts for 2024/25

The Border to Coast Annual Conference will (subject to final confirmation) take place on the following dates

28th – 29th Sept 2023

26th – 27th Sept 2024

25th – 26th Sept 2025

In order to minimise travel and maximise the use of members' time the Joint Committee will take place on the Thursday morning before the commencement of the Conference.



Border to Coast Joint Committee

Date of Meeting: 21st March 2023

Report Title: Shareholder Nominated Non-Executive Director Appointments

Report Author: George Graham (Director – SYPA)

1.0 Executive Summary:

1.1 This report proposes arrangements to extend the term of office of one shareholder nominated Non-Executive Director in order to bring terms of office into line with the agreed three year term and ensure that the terms of the two directors do not end at the same time.

2.0 Recommendation:

2.1 It is recommended that the term of office as a Non-Executive Director of Border to Coast of Cllr John Holtby be extended until September 2024.

3.0 Election Results

3.1 The Joint Committee have previously agreed that:

- Shareholder Nominated Non-Executive Directors should serve for up to two three-year terms

- The terms of office of the two Non-Executive Directors should be arranged so that they do not come to an end at the same time

3.2 These arrangements were made to provide the opportunity for Non-Executive Directors to gain sufficient knowledge and experience and also to provide the company's board with some consistency in membership.

3.3 Following the election of Cllr David Coupe as the most recent Non-Executive Director for a three-year term which ends in September 2025 it is now necessary to consider the other non-Executive role currently held by Cllr John Holtby whose term unless extended will end in September 2023 after two years.

3.4 The Company's Board are concerned to achieve some stability and a regular pattern of appointments for the Shareholder Nominated Non-Executives who play an important role in ensuring the company remains connected to its public sector roots.

3.5 Cllr Holtby will by September 2023 have completed two terms of two years and would be due to stand down and under the rules when he was elected would not be eligible for a further term without a break between terms. The current rules allow 2 consecutive terms of three years. Given the important role that Cllr Holtby plays within the Board and the need to achieve Board stability, the Board would like to explore with Partner

Funds a transitional arrangement to achieve a position where the terms of the two Non-Executives do not end together. The means to achieve this would be to extend Cllr Holtby's current term be extended until Sept 2024 at which point, he will have served for 5 years which is still less than the permitted maximum. Cllr Holtby has indicated his willingness to continue if requested. From the point of view of the Joint Committee this would involve a decision not to nominate a new shareholder non-Executive during the coming municipal year.

4.0 Recommendation

- 4.1 It is recommended that the Joint Committee agree not to recommend a new shareholder non-Executive Director to the Company until the 2024/25 Municipal Year allowing the Board to extend the term of office of Cllr John Holtby until September 2024 for the reasons given in the body of this report.

Report Author:

George Graham – Director - South Yorkshire Pensions Authority.

ggraham@sypa.org.uk

01226 666439



Border to Coast Joint Committee

Date of Meeting: 21st March 2023

Report Title: Joint Committee Budget (for decision)

Report Sponsor: Nick Orton, Chair Officer Operations Group

1.0 Recommendation

1.1 The Joint Committee is asked to

- Note the current budget position for 2022/23
- Agree a budget for 2023/24 of £40,000

2.0 2022/23 Joint Committee Budget

2.1 At the Joint Committee meeting in March 2022 a budget of £40,000 was approved for 2022/23. 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 non-voting members 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 As the time of writing total expenditure incurred for the year to date against this budget was £44,415. This largely relates to external legal costs for the review

of the Border to Coast Governance documentation and the review of the Global Property legal documentation.

2.7 Other expenditure incurred in the current year, includes:

- Secretariat support to the Joint Committee, from South Yorkshire Pensions Authority.
- Travel and subsistence for the scheme member representatives on the Joint Committee.

3.0 Proposed Budget for 2023/24

3.1 It is proposed that the budget for 2023/24 should be retained at £40,000.

4.0 Conclusion

4.1 The current expenditure is within the Joint Committee Budget.

4.2 It is proposed that the budget for 2023/24 is retained at the current level of £40,000.

Report Author:

Neil Sellstrom, neil.sellstrom@southtyneside.gov.uk

Further Information and Background Documents:

N/A



Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: 21 March 2023

Report Title: Governance Charter Review

Report Sponsor: Border to Coast CEO – Rachel Elwell

1 Executive Summary

- 1.1 This report presents the annual review of the Governance Charter. The Governance Charter is a public document included on the external website and sets out a summary of the Border to Coast governance arrangements.
- 1.2 The Governance Charter was not subject to an annual review in 2022 due to the shareholder governance changes, but it has now been reviewed by the CEO, HO CRM, HO Legal and Governance, and the Company Secretary. It has also been shared with Pension Officers and reflects their comments.
- 1.3 Both documents were presented to the Executive Committee on 28 February 2023 and the Border to Coast Board on 8 March 2023.
- 1.4 A summary of the changes made in the update to the Governance Charter is included in Section 3 and a track-changed version is attached to this report for ease of review.
- 1.5 There may be further changes to the document following the completion of the shareholder governance review, however the date for this is not yet known.

2 Recommendations

- 2.1 The Joint Committee is asked to approve the proposed changes to the Governance Charter.

3 Summary of key changes to the Governance Charter

- 3.1 Section 2: the CSO has updated this section to reflect our actual strategy.
- 3.2 Section 3.2: this section on investor interaction with the Company has been updated to reflect current arrangements.
- 3.3 Section 4.1: this section has been updated to reflect the arrangements in which the Company provides the shareholders with financial information.

- 3.4 Section 4.2: this section has been added in and details the process for Partner Funds Non-Executive Director elections.
- 3.5 Section 5.1: this section has been updated to align to the Board's role as detailed in the corporate governance manual.
- 3.6 Section 5.2: the governance chart in this section has been updated to show the current structure.
- 3.7 Appendix I: proposed updates to the Joint Committee terms of reference have been made, these include removal of the remit of the Joint Committee prior to the Company's launch.
- 3.8 Appendix II: changes have been made to align the schedule of matters reserved for decision by the shareholders with the changes made to the Shareholders Agreement.
- 3.9 Section 1 of the Governance Charter does not include the Real Estate propositions (global and UK) which are planned for launch during 2023/24. The oversight of the associated structures is expected to be broadly in line with those described in Section 1. It is proposed that the Governance Charter will be updated to reflect these propositions at the review after their launch.

4 Risks

- 4.1 It is important that Border to Coast has a robust corporate governance framework and policies reflect the Board and the Joint Committee's desired approach to the management of the Company.
- 4.2 The Governance Charter needs to provide external stakeholders with an up-to-date view of the management of governance within the organisation. As the governance changes the Charter must reflect this. Without these changes external stakeholders cannot be confident in their ability to hold the firm to account.

5 Conclusion

- 5.1 It is good governance to review these documents on an annual basis and the Joint Committee is recommended to approve the proposed changes to the Governance Charter.

6 Author

Milo Kerr, Head of CRM
9 March 2023

7 Supporting Documentation

Appendix I - Revised Governance Charter marked to show proposed changes

Governance Charter

Border to Coast Pensions Partnership



March ~~2021~~2023

Document Control

Version and Review History

Version	Description	Author	Date
V1.0	Approved document following governance	Rachel Elwell, CEO	13 th March 2019
V2.0	Approved document following governance	Rachel Elwell, CEO	12 May 2020
V2.1	Document submitted to ExCo for review	Rachel Elwell, CEO	22 Jan 2021
V2.2	Document reviewed by the Board and s151s	Rachel Elwell, CEO	15 Feb 2021
V2.3	Document reviewed by the Joint Committee	Rachel Elwell, CEO	25 Feb 2021
V3.0	Approved document following governance	Rachel Elwell, CEO	17 March 2021
V3.1	Document submitted to ExCo for review reflecting pension officers' feedback	Rachel Elwell Femi Sobo-Allen, Company Secretary	XX28 Feb 2023
[V32.2	Document reviewed by the Board and s151s	Femi Sobo-Allen, Company Secretary Rachel Elwell, CEO	15-7 March Feb 2023]
[V32.3	Document reviewed by the Joint Committee and s151 officers	Femi Sobo-Allen, Company Secretary Rachel Elwell, CEO	25 Feb March 2023]
[V4.0	Approved document following governance	Rachel Elwell, CEO	XX March 2023]

Governance Approvals

Approved By	Version	Date
S151s	2.2	25/02/2021
The Board	3.2	07/23/03/2023]
The Joint Committee	3.2	21/09/03/2023]
The Board		08/03/2023
The Joint Committee		21/03/2023
S151s		23/03/2023

Key Dates

Event	Date
Effective Date	31/03/202 2 34
Next Review Date	31/03/202 4 32

Key Roles – Border to Coast Pensions Partnership Ltd

Stakeholder	Role	Status
Head of Legal and Governance and Company Secretary	Document owner-drafter responsible for the management and amendment process, along with ensuring implementation of the framework	Drafter
CEO, HO CRM	Review ongoing drafts to ensure completeness	Reviewer
HO Legal and Governance	Document owner	Owner
Border to Coast Board	Approve the framework and any material alteration made thereafter	Approver
Border to Coast Colleagues	Informed of framework and manage delivery in practice	Informed

Key Roles – Border to Coast Partner Funds

Stakeholder	Role	Status
Officers Operations Group and Section 151 officers	Review ongoing drafts to ensure completeness	Reviewer
Joint Committee	Approve the framework and any material alteration made thereafter	Approver
Partner Fund Pension Committees	Approve the framework and any material alteration made thereafter	Approver

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1. Introduction

Border to Coast Pensions Partnership (“the Pool”) has been formed to enable the pooling of assets of certain Administering Authorities of the Local Government Pension Scheme (“Partner Funds”). In order to effect the pooling, the Partner Funds have established an FCA-regulated operator of collective investment vehicles, which is also appointed as the Asset Manager for those vehicles. This company is Border to Coast Pensions Partnership Ltd (“Border to Coast”).

Border to Coast is wholly owned by the Partner Funds who are its customers and also its shareholders. The guiding principles set out by the Partner Funds have been reflected in the governance structure:

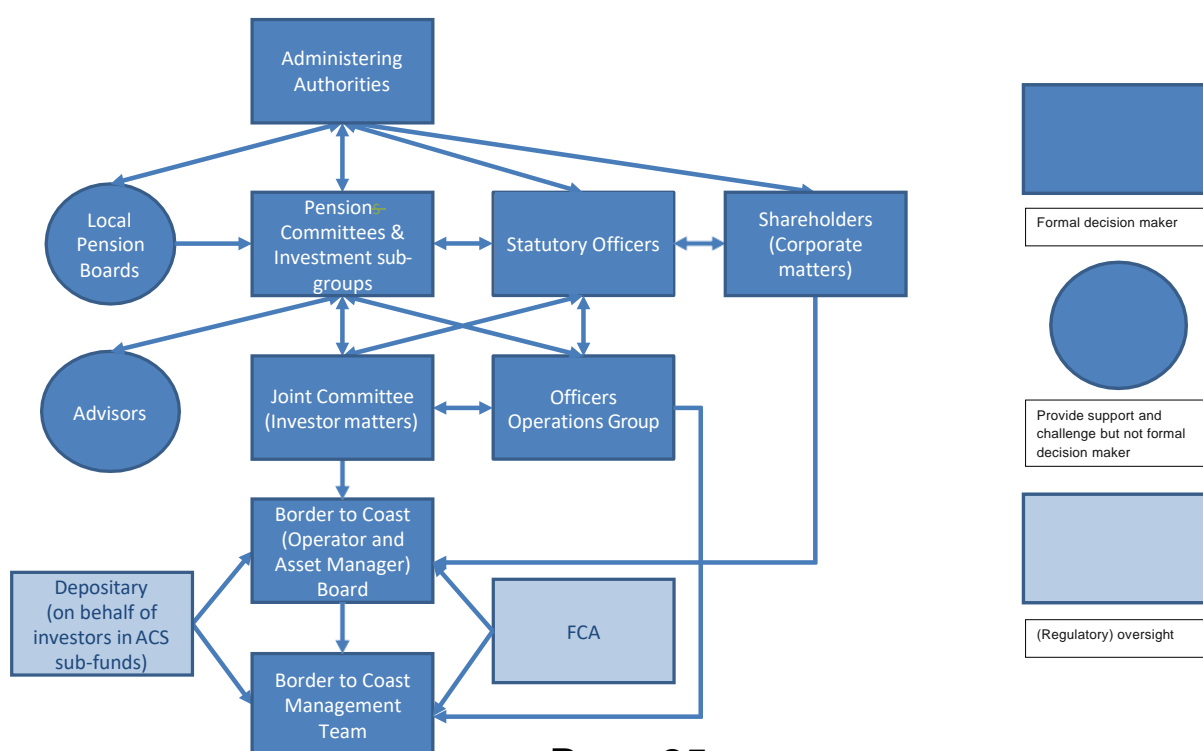
1. Meeting central Government’s aims for governance, responsible investing, infrastructure and value for money
2. One fund, one vote
3. Funds retaining governance role and ownership of asset allocation
4. Generating improved net-of-fees risk adjusted performance
5. Border to Coast internal management capability
6. Improved resilience and capacity over existing structures
7. A shared team in one location

Border to Coast’s investment performance and capability is overseen by the Partner Funds on a day to day basis by the Senior Fund Officers and formally on a quarterly basis by the Joint Committee, which is constituted of elected member representatives from each of the Partner Funds.

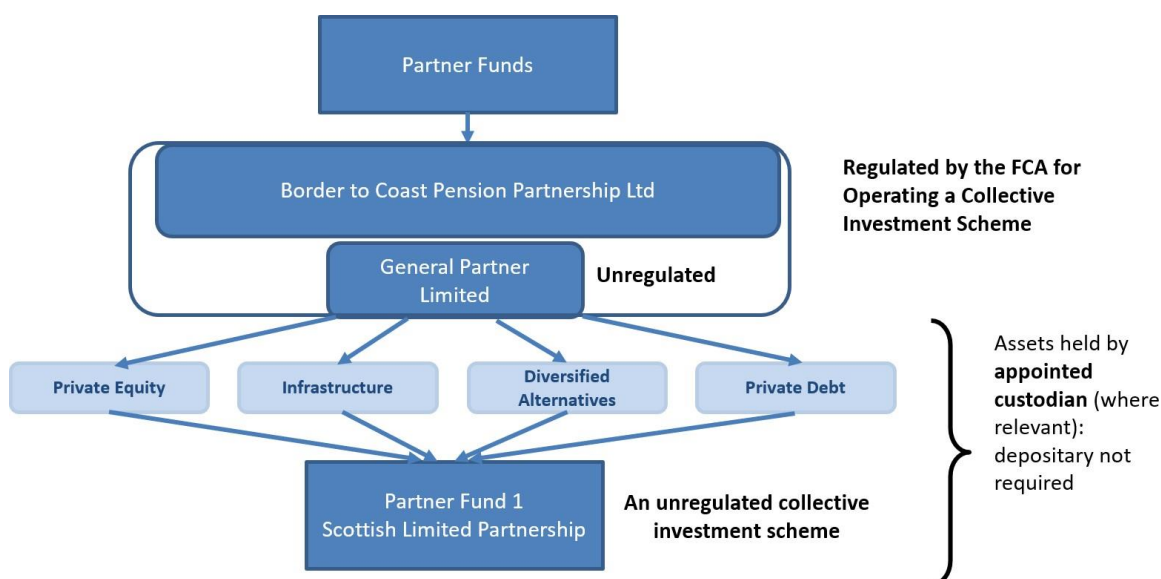
Border to Coast’s performance as a company is overseen by shareholder representatives from the Administering Authorities of the Partner Funds both on an ongoing basis and formally once a year at its AGM.

The Partner Funds and Border to Coast work collaboratively to build the investment capabilities required to ensure that the Partner Funds are able to efficiently and effectively deliver their Strategic Asset Allocations in line with the guiding principles. However, in order to hold Border to Coast to account and to meet FCA requirements for a regulated asset manager, the governance structure is designed to ensure sufficient independence between the Partner Funds and Border to Coast during implementation and ongoing management of the sub-funds.

The diagram below shows the governance structure in place to ensure that appropriate oversight of Border to Coast is carried out both from a shareholder and an investor perspective.



It should be noted that the oversight of the Border to Coast private market structure differs from that of the Border to Coast Authorised Contractual Scheme (“ACS”) as set out in the diagram below (we have chosen to show one of the GP/LP structures for simplicity, in reality each Partner Fund investing in private market via Border to Coast has its own GP/LP structure):



Real Estate propositions (global and UK) are planned for launch during 2023/24. The oversight of the associated structures is expected to be broadly in line with those described above. The Charter will be updated to reflect these propositions at the review after their launch.

1.1 Purpose of this Document

This “**Governance Charter**” is intended as a summary of the governance arrangements for the Pool, including capturing the structure and roles, responsibilities and authority of the following in relation to Border to Coast (as operator and asset manager):

- The Administering Authorities (section 3)
- The Pensions Committees (section 3)
- Advisors to Pensions Committees (section 3.1)
- Local Pension Boards (section 3.1)
- The Joint Committee (section 3.1)
- Officers Operations Group (section 3.1)
- Statutory Officers (including s151s and monitoring officers) (section 3.1)
- Shareholders (section 4)
- Border to Coast Board (section 5.1)
- Border to Coast Management Team (sections 3.2, 4.1 and 5.2)
- The FCA (section 5.3)
- The Depositary (in respect of regulated collective vehicles such as the ACS) (section 5.4)

The detailed provisions of the governance structure can be found in the following core documents, which were reviewed in 2022 [and amended versions subsequently approved in Q1 2023]:

- Border to Coast’s Articles of Association;
- the Shareholders’ Agreement; and
- the Inter Authority Agreement (establishing the BCPP Joint Committee and stating its Terms of Reference and Constitution and the Terms of Reference for the Officer Operations Group).

Additional provisions specific to particular investment sub-funds can be found in each sub-fund’s governing documentation (e.g. the ACS prospectus).

To the extent that these differ from the Charter, the underlying documents will-should be taken as correct.

1.2 Application

The Governance Charter is applicable to everyone within ~~the~~ Border to Coast Pensions Partnership and is made available to all via the Border to Coast website. It will be reviewed annually by ~~the~~ Border to Coast's ~~Head of Legal and Governance and the~~ Company Secretary and ~~also~~ the Officers Operations Group and updated as required to reflect any changes in governance arrangements in agreement with the Border to Coast Board, Joint Committee and Shareholders.

2. Border to Coast's Strategy

Border to Coast was established by the Partner Funds to deliver the overall pooling agenda set out by central Government in 2015. LGPS pooling is intended to provide improved performance and investment outcomes to the participating funds and Border to Coast's strategic goal and objectives reflect this purpose.

Border to Coast's purpose is to make a difference for the LGPS. Working collectively, pooling gives Partner Funds a stronger voice and, working in partnership, Border to Coast seeks to deliver cost-effective, innovative and responsible investment to enable sustainable performance over the long term.

In the current strategic phase, this is delivered through three strategic pillars: Investment programme, Corporate programme, and People. These are delivered through the development of the necessary strategic capabilities, supported by a strong risk and governance framework. All of this is underpinned by culture and values.

~~Border to Coast's was created to make a positive difference to the investment outcomes of its partner Local Government Pension Funds. Through pooling it will have a stronger voice and, working in partnership, will deliver a cost effective, innovative and responsible investments, thereby enabling sustainable, risk-adjusted performance over the long term.~~

~~This will be achieved through the following three main strategic objectives:~~

- ~~1. Strategy: Delivering Border to Coast's strategy to deliver the benefits of pooling through the creation of a regulated asset manager in line with the guiding principles~~
- ~~2. Customer Outcomes: (i) Putting customers at the heart of Border to Coast and delivering great service, and (ii) meeting customers' expectations of risk-adjusted investment return and performance~~
- ~~3. Governance: Creating a sustainable organisation making efficient and effective decisions with appropriate oversight~~

The Board of Border to Coast is responsible for setting the strategic direction and objectives for Border to Coast to inform the annual strategic plan and budget for approval by the Shareholders. The Board has delegated the day-to-day management of Border to Coast in achieving these to the Border to Coast CEO, who in turn works with the Border to Coast ~~Management Executive Team~~ to deliver to the Partner Funds (as both investors and shareholders). The responsibilities of the Border to Coast Board and ~~Management team Executive~~ are considered further in section 5.

3. The Role of the Partner Funds as Investors

Each local Administering Authority acts as scheme manager for each Pension Fund, and so is responsible for investing and managing LGPS assets, setting employer contribution rates, collecting employer and employee contributions, paying pension benefits as they fall due, and dealing with various other aspects of administration.

The individual Administering Authority Pension Committees are ultimately responsible and publicly accountable for ensuring that ~~the~~ pension liabilities are appropriately funded and can be paid in accordance with LGPS regulations as they fall due. Specifically, with respect to investment matters, this includes:

- Setting funding and risk management strategies;
- Formulating investment strategy in line with the Investment Strategy Statement, including the management of cashflow requirements;
- Developing their approach to Responsible Investment and maintaining their own policy framework;

- Complying with Regulations which require the Committee to take advice in determining the Fund's investment policy and making investment decisions;
- Overseeing that asset managers, to whom the delegation of day-to-day investment matters is made, follow the Committee's policies and that investment strategy is implemented in accordance with the Investment Strategy Statement; and
- Approving and monitoring performance targets for the Pension Fund.

To enable ~~the~~ Partner Funds (as investors) to effectively and efficiently implement their investment strategy, Border to Coast, in partnership and working closely with the Partner Funds, is responsible for designing sub-funds with certain risk / return / liquidity characteristics that ~~will~~ provide the strategic "building blocks".

Once the design is agreed, Border to Coast becomes the asset manager responsible for tactical matters such as implementation and ongoing management of each sub-fund, management of internal investment capability, appointment and oversight of external managers, implementation of responsible investment ~~(voting and engagement) policies~~ (including the corporate governance and voting guidelines and the climate change policy), and tactical asset allocation within risk parameters agreed with the Partner Funds.

The Partner Funds are responsible for the review of whether the built sub-fund meets their strategic needs and, under their fiduciary duties, ~~will~~ review Border to Coast's capability to deliver the objectives.

The Partner Funds then collectively oversee the performance of Border to Coast as described below. In order to ensure that Border to Coast can be effectively held to account, it is important there is an appropriate degree of separation of duties on implementation of day-to-day business between Border to Coast and Partner Funds. The strategies to ensure this are detailed in this Governance Charter.

3.1 Governance Structures supporting the Pensions Committees

The following groups and individuals support the Pensions Committees in working with and overseeing Border to Coast:

- **Joint Committee** is constituted from the 11 Pension Fund Chairs, or other appointed Councillor, and meets quarterly ~~now that Border to Coast is established and functioning~~. It is the collaborative vehicle through which the individual Partner Funds provide collective oversight of the performance and direction of Border to Coast. Its remit includes oversight of progress towards the pooling of Partner Fund assets. Two scheme member representatives, elected by Local Pension Boards of the 11 Partner Funds, also attend as non-voting members of the Committee.

As a Section 102 Committee¹, there are agreed Terms of Reference (see Appendix I to this Charter) and as meetings are held as public meetings they are operated and reported as is required. It should be noted that the Joint Committee does not have any formally delegated authority, and therefore any matters requiring decision must be considered and approved by each Pension Committee.

The Chair and Vice Chair of the Joint Committee are elected by the members of the Joint Committee on a ~~biennial~~ annual basis. Secretariat functions to support the Joint Committee are provided through South Yorkshire Pensions Authority. Tyne & Wear Pension Fund act as host authority for all other matters.

- **Officer Groups** – The Joint Committee is supported by the respective Authority s151 and Monitoring Officers and the Officer Operations Group ("OOG"), constituted from the 11 Senior Pension Fund Officers. These groups meet to discuss issues and give input to both Elected Members and Border to Coast as required. The OOG meets bi-monthly, part of the meeting being attended by Border to Coast, part in closed session. The ~~Officer Operations Group~~ OOG works collaboratively together to ensure that due diligence over Border to Coast investment capabilities is carried out effectively on behalf of the Pension Committees.
- **Local Pension Boards** – in line with their role in other administrative and governance matters, the

¹ A Committee established under section 102(1) of the Local Government Act 1972 (LGA), which permits local authorities to discharge their functions through committees.

local pension boards provide support and challenge to the Pension Committee's decisions and decision-making process in relevant investment areas, and look to ensure appropriate governance is in place to provide effective monitoring.

- **Advisors** – Regulations require that Pension Funds take professional advice in respect of any investment decisions, and this is generally provided through Funds appointing Independent Investment Advisors and/or Investment Consultants. They ~~will~~ work with the Pension Committee and Officers to ensure that the strategic asset allocation can be effectively implemented through the use of the sub-funds available at Border to Coast.

3.2 Investor interaction with Border to Coast

In order to enable the appropriate scrutiny of Border to Coast by the Joint Committee and, ultimately, the individual Pension Committees, Border to Coast has committed to provide the following support and materials, developed in collaboration with the Partner Funds:

What	To Whom**	Frequency
Weekly operational update email	OOG	Weekly
Organisation of calls with s151 officers by the CEO	S151 officers	Quarterly
CEO Newsletter – general update (circulation facilitated by OOG)	All stakeholders	c. 8 p.a.
Attendance* at the OOG, and OOG RI, meetings by Border to Coast officers <u>representatives</u>	OOG	Bi-monthly or as required
Update on progress through longer-term transition to pooling (NB ongoing discussions with officers during this period)	Joint Committee and Pension Committees	Quarterly
Performance reporting (generic and Partner Fund specific)	Joint Committee and Pension Committees	Quarterly
<u>Fund factsheets</u>	<u>Public</u>	<u>Monthly</u>
Calls to discuss Border to Coast funds' performance	OOG and advisors	Quarterly
Attendance* at Joint Committee meetings by the CEO and Chair (and other officers <u>representatives</u> as required)	Joint Committee	Quarterly
Membership of Joint Committee (on a co-opted and non-voting basis) of the shareholder nominated non-executive directors	Joint Committee	Quarterly
Attendance* at Pension Committee meetings by a Border to Coast <u>Client-Customer Relationship Management</u> Team member (and others officers as appropriate)	Pension Committees	Quarterly <u>or as required</u>
Facilitation of sessions to enable Pension Committee advisors to input and challenge	Advisors	Six-monthly
Organisation of an investment conference for all Pool stakeholders	All stakeholders	Annually
Invitation for all Pension Committees to hold a meeting at Border to Coast's offices to meet the team and hear presentations	Pension Committees	Annually or as required
Facilitation of collaborative workshops to enable the build of strategic capability including development of investment capabilities, client-customer reporting and approach to transition management	<u>OOG and Advisors (where appropriate)</u>	Ad hoc (as required)
Provision of due diligence information to support the review by officers and advisors of the launch of new investment sub-funds	OOG and Advisors	Ad hoc (as required)
<u>Responsible investment reporting, including stewardship and voting reports</u>	<u>Public</u>	<u>Quarterly</u>
<u>ESG/carbon reporting</u>	<u>OOG</u>	<u>Quarterly</u>
ESG/carbon reporting <u>OOG Quarterly Facilitation of meeting of Officers to discuss papers ahead of LAPFF Business Meetings</u>	<u>OOG</u>	<u>Quarterly</u>

* Attendance* includes preparation and presentation of ad hoc reports as required

** OOG includes officers working separately and working parties with attendees nominated by OOG

To support the Partner Funds, Border to Coast has appointed a Client-Customer Relationship Management (CRM) Team with experience in pensions investment and asset management. Their role is to:

- Provide a single point of contact for Partner Funds to access the investment capabilities of Border to Coast, including access to underlying asset managers
- Ensure that Partner Fund requests and requirements are appropriately serviced, including that reporting needs are serviced in line with agreed Service Level Agreements
- Support the Partner Funds in meeting their training needs with respect to investment
- Understand and represent the Partner Funds in internal Border to Coast meetings to ensure that customer needs are reflected in all decision-making processes
- Provide a first port of call for the resolution of any concerns or queries

Whilst we expect most issues will be able to be addressed via day-to-day interactions, there is also a formal complaints procedure, which is provided to all investors.

4. The Role of the Partner Funds as Shareholders

Each Partner Fund also has the right to exercise corporate control and oversight through its Administering Authority's ownership of Border to Coast as an equal shareholder. Each Partner Fund, as shareholder, owns a single equity voting share, and through the exercise of its voting rights across a range of reserved matters demonstrates its exercise of "significant control" as required under "teckal"².

In general shareholders' role in the governance of a company is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place within the company. In the case of the Border to Coast, shareholders also retain certain rights under a Shareholders' Agreement entered into by all shareholders at the time of its incorporation, including approval of the annual Strategic Plan (including annual Budget, cash flow, balance sheet, cost sharing, regulatory capital assessment), Company pensions provision, admission of new shareholders and cost sharing. The matters reserved to shareholders are set out in Appendix II.

Border to Coast Board has also invited the Joint Committee to nominate two members to the Board, who can broadly be said to provide a shareholder perspective on the operation of the Company.

As noted in the advice provided to the Partner Funds by Eversheds in January 2017, a shareholder representative must be nominated (as the Administering Authority cannot physically appear at a Company's shareholder meeting). Further, "such a person is representing the Administering Authority and acting on instructions from the Authority. It does not therefore matter legally whether that person is a member or an officer since no delegated powers are being exercised."

Eversheds also advised that ordinarily conflicts of interest were not expected to arise between the customer and shareholder roles. It was therefore possible in the ordinary course of events for the same representative to hold both shareholder and Joint Committee roles. However, Eversheds did recommend that each Administering Authority may wish to have a conflicts of interest policy in place.

4.1 Shareholder interaction with Border to Coast

The shareholders carry out their duties under the Shareholders' Agreement, typically by written resolution, with advice from the Section 151 and monitoring officers as deemed appropriate for each Partner Fund. It should be noted that these written notifications of consent to actions made under the Shareholders' Agreement are to comply with the terms of that Agreement and are not resolutions of the Company made under the Articles of Association which would require shareholder votes in General Meeting or in accordance with the Articles. These regimes operate alongside one another.

In addition, Border to Coast holds an Annual General Meeting to provide the shareholders with a forum for discussion about the Company's performance against the wider pooling objectives and to hold the Border to Coast directors to account for this. This also provides a forum for discussion regarding future strategic capability build and agreement for changes to the budget to support such developments.

Border to Coast also provides the shareholders with such financial information as is necessary to keep

² <http://www.cipfa.org/policy-and-guidance/articles/teckal-cases-explained>

each shareholder informed about performance which includes: quarterly management accounts and reports, financial information, copies of the annual audited accounts, the outcome of efficiency reviews and a report on the progress of the Company against objectives or milestones in the strategic plan.

The primary Border to Coast contact for shareholders is with the Chair, CEO and [COODCEO](#).

Provision of quarterly management accounting information	S151 Officers	Quarterly
Strategy Meetings	S151 Officers	Six-monthly

4.2 Partner Fund Nominated Non-Executive Directors

Border to Coast recognises the importance of having diverse voices on its Board, and so has sought to include Board representation from its shareholders, the Partner Funds. Partner Funds may nominate two individuals as Non-Executive Directors, to offer their insight, and ensure the voice of shareholders and customers are heard in the Board’s decision-making process.

Individuals sit as directors of the Company and provide expert input based on their personal knowledge and experience. They do not hold office as representatives of individual Partner Funds and are expected to act in their view of the best interests of the Company.

In January 2018 Partner Funds, via a Governance sub-group to the Joint Committee, considered the implications and mechanics of having such representation on the Board. The sub-group were strongly of the view that any representation on the Board should be drawn from elected members of the Partner Funds and it was made a qualification of retaining a directorship that the Partner Fund directors remained elected members of their administering authority.

The Joint Committee commissioned advice regarding the potential conflict of interest in holding a directorship of the Board, given administering authorities’ oversight responsibilities. It was agreed that a suitable deputy would need to be nominated to the Joint Committee for the term of any appointment as an Non-Executive Director of the Company. The Board has additionally requested that prior to any selection process, the Joint Committee and nominees should satisfy themselves that there is no unacceptable conflict of interest should a nominee continue their role with the Partner Fund’s pension committee and join the Board of Border to Coast.

The nomination process takes place via the Joint Committee, who will consider applications from nominees which illustrate how they meet the requirements of the role. The Joint Committee will, by exhaustive ballot, nominate for the Board’s consideration the candidate they feel is best suited for the role. The Board will carry out its review, in line with FCA requirements for Non-Executive Directors of FCA-regulated entities, before recommending appointment to shareholders for approval. The Board reserves the right to not recommend for approval if it is believed that the nominee does not meet the role profile criteria. Further information regarding this can be found on the Joint Committee website.

Once the Shareholders approve the appointment to the Board, the Non-Executive Director is appointed for a term of three years and may be re-appointed for a second term of three years with the support of the Joint Committee, the Board and shareholders.

5. Border to Coast’s Governance Structure

Border to Coast’s Board is committed to maintaining high standards of corporate governance and believes that a sound corporate governance framework enables efficient and effective decision making with clear accountabilities, contributing to achieving the Company’s objectives and delivering long-term and sustainable value to its customers and shareholders. The Board’s intention is to achieve general adherence to the UK Corporate Governance Code³ (“the Code”), notwithstanding business size and closed shareholding.

The responsibilities of the Board include promoting the long-term sustainable success of the Company, establishing the Company’s purpose, values and strategy and satisfying itself that these, and its culture, are aligned. The Board must provide the leadership, and ensure that the necessary resources are in place, to put these objectives into effect; supervising the management of the business; and reporting to shareholders on their stewardship. In addition, the Board should ensure effective engagement with, and

³ [UK Corporate Governance Code July 2018](#)

encourage participation from, its shareholders and other stakeholders. The Board's actions are subject to laws, regulations and the direction of the shareholders whose role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

5.1 The Role of the Board

The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs, having due regard to its shareholders, customers, and other stakeholders as a whole. The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards, risk appetite and strategy, and ensures that its obligations to its shareholders, customers and other stakeholders are understood and met.

In carrying out these responsibilities, the Board must have regard to what is appropriate for the Company's business and reputation, the materiality of the financial and other risks to the Company, its customers, the markets and other stakeholders, inherent in the business and the relevant costs and benefits of implementing specific controls.

The Board should be comprised of suitably skilled and experienced individuals who collectively have sufficient knowledge and understanding of all the Company's markets and propositions to be able to discharge all their responsibilities in an effective, efficient and compliant manner.

~~The relevant laws, regulations and the Code all impose duties on the Directors of the Company, as set out in Appendix III to this Governance Charter.~~

~~Within the Board, the roles of Chairman and Chief Executive Officer are distinct, but they complement each other. The Code states that the Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The CEO's role is to ensure appropriate day-to-day management of the Company in line with the Board's strategy (see section 5.2 below).~~

~~In addition to the general requirements for all Directors, the Company Non-Executive Directors (NEDs) provide:~~

- ~~• Constructive challenge and contribute to the development of strategy;~~
- ~~• Scrutiny of the performance of management in meeting agreed goals and objectives;~~
- ~~• Monitoring of performance; and~~
- ~~• Review that financial information is accurate and that financial controls and systems of risk management are robust.~~

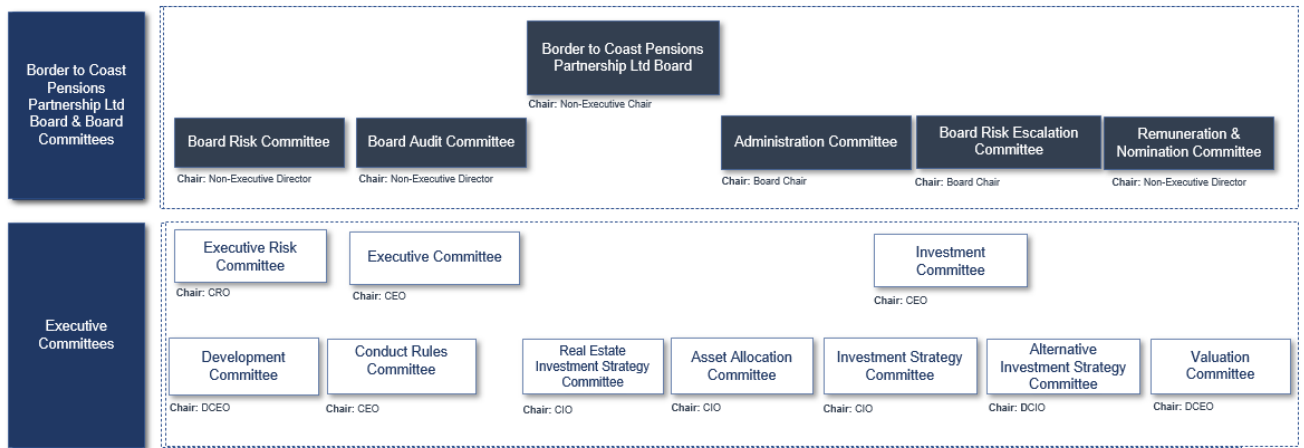
~~NEDs are also responsible for recommending for approval by the Shareholders appropriate levels of remuneration of Executive Directors and have a prime role in succession planning, appointing, and where necessary removing, senior management.~~

~~The Company has sought to include representation from its Shareholders and Partner Funds on the Board. The Partner Funds (via the Joint Committee) have nominated two individuals to act as full Board Members. They are obliged to conduct themselves in the same way as all members of the Board and as described above.~~

5.115.2 The Role of the Border to Coast Management Team

The Board has delegated to the Chief Executive Officer the management of the Company on a day-to-day basis, subject always to those matters reserved for decision by the Board or its committees.

The Chief Executive Officer has in turn delegated certain ~~of her~~ responsibilities to ~~her~~ their direct reports. A number of committees have been created to assist the Chief Executive Officer in ~~her~~ their decision-making or to monitor certain activities. The management and chairing of certain committees ~~have~~ es been delegated to certain ~~of her~~ direct reports as shown in the governance chart below.



The Chief Executive Officer reports regularly to the Chairman and the Board with appropriate, timely and quality information so that it can discharge its responsibilities effectively. CEO specific responsibilities include the following:

- Strategy and Business Planning
- Leadership and Corporate Governance
- People
- Pensions
- Risk Management and Controls
- Finance
- Customer Services, ~~Conduct Risk Management~~ and Conduct Risk including Treating Customers Fairly
- Communications and Shareholder Liaison
- Investment Management

5.125.3 The Role of the Regulator

Border to Coast is approved and regulated by the Financial Conduct Authority as an Alternative Investment Fund Manager. This means the Company and its employees must meet certain standards of conduct in the operation of its business. These requirements are set out in Appendix III. The Regulator may carry out investigations if it believes that an organisation is not meeting the appropriate standards. It has wide-ranging powers of intervention and sanction.

5.135.4 The Role of the Depositary

In a regulated collective investment vehicle such as the Border to Coast ACS, a depositary is appointed to act on behalf of investors. Northern Trust has been appointed as the depositary for the Border to Coast ACS. Its duties include:

- Safeguarding assets of the authorised fund via its custody services or utilising a sub- custodian
- Oversight of manager's activities e.g. unit pricing, dealing, portfolio management
- Oversight of how the manager is discharging its responsibilities
- Cash flow / liquidity oversight
- Distributions
- Protecting the best interests of investors
- Reporting breaches of FCA guidance to the FCA (including any due diligence findings).

Appendix I: 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~~by BCPP ~~Pool~~.
2. The Joint Committee will provide effective engagement with the Authorities as the ~~BCPP Pool~~investment vehicles are established and ultimately operated by BCPP. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.
- ~~2.3.~~ The remit of the Joint Committee is:
 - ~~2.1. First phase — Period to April 2018 or operational commencement of the BCPP Pool (whichever is later)~~
 - ~~2.1.2. To provide support and guidance to the work being undertaken by the Officer Operations Group to give effect to the pooling arrangements.~~
 - ~~2.1.3. To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with the Authorities to scrutinise and monitor project management arrangements and proposals for the appointment of advisers by the Authorities.~~
 - ~~2.1.4. To oversee costs to deliver the BCPP Pool, obtaining approval from individual Authorities where necessary.~~
 - ~~2.1.5. To monitor and scrutinise responsibilities for delivery of the project and relevant support arrangements.~~
 - ~~2.1.6. To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group.~~
 - ~~2.1.7. To formulate processes and policies for the appointment and termination of membership to the Joint Committee.~~
 - ~~2.1.8. To propose and confirm contracts and policies required by the Authorities to commence transition to the BCPP Pool arrangements.~~
 - ~~2.1.9. To provide support and guidance to the work being undertaken by the Officer Operations Group to do all things necessary to implement the final proposal, including preparatory work for asset transition.~~
 - ~~2.1.10. To consider the initial range of sub-funds to be provided by the ACS and to make recommendations to the BCPP Board for the creation of those sub-funds.~~
 - ~~2.1.11. To review and comment on the draft ACS prospectus and supporting documents on behalf of the Authorities prior to the Financial Conduct Authority approval.~~
 - ~~2.1. Phase 2 — Post Establishment and Commencement of Operations~~
 - ~~3.1.1. To provide support and guidance to the work being undertaken by the Officer Operations Group.~~
 - ~~2.1.13-3.1.2. To facilitate the adoption by the Authorities of relevant contracts and policies.~~
 - ~~2.1.14-3.1.3. 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).~~
 - ~~2.1.15-3.1.4. 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.~~
 - ~~2.1.16-3.1.5. To review and comment on the draft contractual documents for any new collective investment vehicle 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).~~~~
 - ~~2.1.17-3.1.6. 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.~~
 - ~~2.1.18-3.1.7. To formulate and propose any common ESG/RI policy, including the climate change policy, for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.~~
 - ~~2.1.19-3.1.8. 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.~~
 - ~~2.1.20-3.1.9. To agree on behalf of the Authorities high level transition and capability development plans on behalf of the Authorities for approval by the Authorities for the transfer of BCPP~~

assets.

2.4.21.3.1.10. 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.

2.4.22.3.1.11. To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

Appendix II: Schedule of Matters Reserved for Decision by the Shareholders

PART A – Matters for approval by all of the Shareholders (unanimous consent required)

1. subject to FCA rules, extend the activities of the Company outside the scope of the Business or close down any operation of the Business;
2. subject to FCA rules, give any guarantee or indemnity outside the ordinary course of the Business to secure the liabilities of any person or assume the obligations of any person (other than a wholly owned subsidiary) (e.g. guaranteeing a lease that does not relate to the Business of the Company);
3. subject to FCA rules and save for any Permitted Contract, enter into or vary any contracts or arrangements with any of the Shareholders ~~or directors (other than service agreements and letters of appointment as directors)~~ or any person with whom any shareholder ~~or director~~ is connected (whether as director, consultant, shareholder or otherwise) ~~(e.g. any contract which could give preferential rights to a specific shareholder)~~ For the purposes of this paragraph a “Permitted Contract” means any advisory or management agreement that puts into effect services to be provided to a Shareholder as a customer of the Company that are approved under the Strategic Plan and, where applicable, the agreement is on materially the same terms that have been agreed with any other Shareholder that is a recipient of the same services;
4. enter into any agreement not in the ordinary course of the Business and/or which is not on an arm's length basis;
5. enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, the Company being managed otherwise than by its directors;
6. change the name of the Company;
7. pass a resolution or present a petition to wind up the Company or apply for an administration order or any order having similar effect in a different jurisdiction in relation to the Company unless in any case the Company is at the relevant time unable to pay its debts within the meaning of section 123 Insolvency Act 1986;
8. reduce or cancel any share capital of the Company, purchase its own shares, hold any shares in treasury, allot or agree to allot, whether actually or contingently, any of the share capital of the Company or any security of the Company convertible into share capital, grant any options or other rights to subscribe for or to convert any security into shares of the Company or alter the classification of any part of the share capital of the Company (in each case other than as expressly permitted by this Agreement and/or the Articles where no prior consent shall be required including, without limitation, pursuant to either **clause 4 (Finance & Regulatory Capital)** and/or **clause 15.16. (Consequences of Breach)** and/or **Article 26 of the Articles (Issue of Shares and Pre-emption Rights)**);
9. other than as expressly permitted by this Agreement and/or the Articles, redeem or buy any existing Shares or otherwise reorganise the share capital of the Company;
10. admit any person as a member of the Company or an investor in the BCPP pool;
11. enter into any partnership, joint venture or profit sharing arrangement with any person (excluding entering into any investment or investment vehicle);
12. Save in the event of a Required Amendment, alter any of the provisions of the Articles or any of the rights attaching to the Shares. For the purposes of this paragraph a “Required Amendment” means any amendment to the Articles that is either (i) required pursuant to a direct request from the FCA; or (ii) the Company has received written advice from its legal advisers that a change to the Articles is required to comply with FCA rules ;
13. amalgamate or merge with any other company or business undertaking;
14. sell, lease (as lessor), license (as licensor), transfer or otherwise dispose of any of its material assets otherwise than in the ordinary course of the Business;
- ~~15. the removal and replacement of any Interim Directors, but for the avoidance of doubt not including any subsequent or replacement appointments of any director which shall be made under Part B below;~~
- ~~16.~~ 15. commence, settle or defend any claim, proceedings or other litigation brought by or against BCPP, except (i) in relation to debt collection not exceeding £500,000) in the ordinary course of the

Business and (ii) in relation to any investment related claims or proceedings relevant to the AGS the investment sub-funds or other collective investment vehicles established by BCPP; or (iii) in respect of non-material claims, proceedings or other litigation which involve actions for losses of less than £1,000,000 or such lower amount as the Company and the Shareholders may determine from time to time; or other collective investment vehicles;

~~17.16.~~ take out any third party loan(s) in respect of BCPP which (in aggregate) exceed the sum of £5,000,000;

~~18.17.~~ form any subsidiary of BCPP, or acquire any shares in any other company, whether through subscription or transfer, such that the company concerned becomes a subsidiary of BCPP other than where such action is taken in accordance with the Strategic Plan;;

~~19.18.~~ determine the composition, governance arrangements and limits of authority of any and all subsidiaries of BCPP in such a way that will not invalidate the continued application to BCPP of the "Teckal exemption" codified under Regulation 12 of the Public Contracts Regulations 2015;

~~20.~~ approving and adopting an Initial Strategic Plan (including the Annual Budget) and/or amending any such Plan; and

~~19.~~ make any capitalisation, repayment or other distribution of any amount standing to the credit of any reserve of the Company or pay or declare any dividend or other distribution to the Shareholders; and save that no consent will be required to pay the B Share Dividend.

~~21.20.~~ register the transfer of Shares on the replacement of any Shareholder as the administering authority of an LGPS fund pursuant to clause 15.1.5

PART B – Matters for approval by a Shareholder Majority only (66.6%)

1. enter into or materially vary any licence or other similar agreement relating to intellectual property to be licensed to or by the Company which is otherwise than in the ordinary course of the Business;
2. appoint or remove the auditors of the Company;
3. alter the Company's accounting reference date;
4. make any significant change to any of the Company's accounting or reporting practices other than conforming with any changes made to the accounting standards adopted by the Company;
5. ~~approve any proposal not to table~~ the annual accounts of the Company at the Company's annual general meeting;
6. ~~determine the amount of, or any increase in, remuneration payable to any directors from time to time, approve the remuneration policy for any directors from time to time and to assist in the approval of the policy the Company will provide such information to support the Shareholders in exercising their authority with respect to the reserved matter as may be reasonably required and at all times in line with good remuneration disclosure practice in the United Kingdom, including but not limited to the UK Corporate Governance Code, and shall confirm indications of remuneration amounts implied under the policy;~~
7. establish ~~or amend~~ any pension scheme (i.e. for employees of the Company);
8. ~~subject to FCA rules, enter into any agency, distribution or similar agreement which confers or is expressed to confer any element of exclusivity as regards any goods or services the subject of such agreement or as to the area of the agreement or vary such an agreement to include any such exclusivity;~~
- 9.8. incur in any financial year any item or series of items of capital expenditure including finance leases (but excluding operating leases) of more than £5,000,000 (unless provided for in the ~~Initial Strategic Plan or any Subsequent Strategic Plan~~);
10. ~~enter into or vary any operating lease either as lessor or lessee, of any plant, property or equipment of a duration exceeding 5 years or involving aggregate premium and annual rental payments in excess of £450,000 (unless provided for in the Initial Strategic Plan or any Subsequent Strategic Plan) such other amount as the Company and the Shareholders may determine from time to ;~~
11. ~~adoption of (and any amendment of) any written conflicts policy;~~
- 12.9. approval of any conflict or potential conflict of interest any director may have which would preclude him or her from being included in the quorum of any meeting of the directors;

~~13.10~~ appointment of ~~any subsequent~~ the Chair and any director, any alternate director (who is not at the time a director of the Company) and including, for the avoidance of doubt any subsequent Chair in accordance with the Companies Act 2006 or otherwise;

~~14.11~~ removal of any director and, for the avoidance of doubt, the Chair in accordance with the Companies Act 2006 or otherwise; and

~~15.12~~ approving and adopting a ~~Subsequent~~ Strategic Plan (including the Annual Budget) and/or amending any such ~~P~~plan.

Appendix III: Legal and Regulatory Duties of the Board

Border to Coast's Regulator

As an asset management company, Border to Coast is regulated by the Financial Conduct Authority ("FCA").

Border to Coast Directors hold roles classified as Senior Management Functions or Certified under the Senior Management Regime ("SMCR") for regulatory purposes and are required to act in accordance with the principles issued by the FCA.

The FCA requires Directors and senior managers to take appropriate practical responsibility for all matters likely to be of interest to the FCA and expects the Board to:

- Determine the Company's strategy and risk appetite;
- Identify and assess risks, implement controls and monitor how the controls are operating;
- Have reporting lines that are clear and appropriate, with the extent and limits of delegation made clear to all concerned; and
- Have regard to such generally accepted principles of good governance as it is reasonable to regard as applicable to it.

Further guidance can be found in the [FCA's handbook](#).

The FCA's Principles of Business

Border to Coast's Directors are responsible for the governance and oversight of the Company in relation to the [11 FCA Principles for Business](#):

1 Integrity	A firm must conduct its business with integrity.
2 Skill, care and diligence	A firm must conduct its business with due skill, care and diligence.
3 Management and control	A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
4 Financial prudence	A firm must maintain adequate financial resources.
5 Market conduct	A firm must observe proper standards of market conduct.
6 Customers' interests	A firm must pay due regard to the interests of its customers and treat them fairly.
7 Communications with clients	A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
8 Conflicts of interest	A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
9 Customers: relationships of trust	A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.
10 Clients' assets	A firm must arrange adequate protection for clients' assets when it is responsible for them.
11 Relations with regulators	A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice.

The Company operates its business in accordance with standards outlined above. The Head of ~~Legal and Company Secretary~~ Governance and the Compliance function support the Board in fulfilling its responsibility for the governance and oversight of the Company in relation to the above FCA Principles for Business.

Duties under the Companies Act 2006

[The UK Companies Act 2006](#) requires a Director to display possession of the knowledge, skill and experience that may reasonably be expected of a person carrying out the role. It also codifies the following Directors' duties into law:

- To act within powers;
- To promote the success of the company;
- To exercise independent judgment;
- To exercise reasonable care, skill and diligence;
- To avoid conflicts of interest;
- Not to accept benefits from third parties; and
- To declare interests in proposed transactions or arrangements.

Duty two requires Directors to have regard (amongst other matters) to the likely consequences of any decision in the long-term, the interests of employees, the need to foster relationships with customers, suppliers and others, the impact of operations on the community and the environment, the desirability of maintaining a reputation for high standards of business conduct and the need to act fairly as between shareholders. The Government has stated that promoting success means striving for a "long term increase in value".

The conflict of interest provisions require Directors to avoid profiting from their position as a Director on an opportunistic basis and ~~apply to~~ **includes not** exploiting an opportunity, property or information even when the company could not take advantage of it.

Individual Conduct Rules and Standards

Directors who hold roles which are classified as Senior Management Functions (SMF) or are Certified are also subject to the [FCA's Individual Conduct Rules](#). As such they are subject to the following individual conduct rules and standards:

- Rule 1: You must act with integrity.
- Rule 2: You must act with due skill, care and diligence.
- Rule 3: You must be open and cooperative with the FCA, the PRA and other regulators.
- Rule 4: You must pay due regard to the interests of customers and treat them fairly.
- Rule 5: You must observe proper standards of market conduct.

In addition to the above Conduct Rules, those Directors who hold certain specific SMR Functions / Controlled Functions are subject to the following additional FCA Conduct Rules:

- SC1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.
- SC2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.
- SC3: You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively.
- SC4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

The Nolan Principles: the seven principles of public life

The Nolan Principles⁴ are the basis of the ethical standards expected of public office holders. This includes people who are elected or appointed to public office and all people appointed to work in public bodies such as the civil service; local government; the police; the courts and probation services; non-departmental public bodies; and health, education, social and care services. The principles also apply to all those in other sectors that deliver public services.

The principles are Selflessness; Integrity; Objectivity; Accountability; Openness; Honesty; and Leadership. The Board expects all representatives of Border to Coast to abide by these principles.

⁴ <https://www.gov.uk/government/publications/the-7-principles-of-public-life>



Border to Coast Pensions Partnership Ltd Joint Committee

Date of Meeting: 21st March 2023

Report Title: Responsible Investment update

Report Sponsor: Rachel Elwell - CEO

1 Executive Summary

- 1.1 Border to Coast is a strong advocate for Responsible Investment which includes embedding environmental, social and governance issues into investment decision making and practicing active ownership through voting and engagement. This report provides an update on Responsible Investment activity and reporting.
- 1.2 An engagement plan incorporating the Net Zero stewardship strategy has been developed to support delivery of Border to Coast's priority engagement themes. Analysis has been conducted with current engagement mapped across the themes. Additional initiatives have been identified to further support engagement.
- 1.3 We have supported several collaborative engagement initiatives over the last few months covering climate change, modern slavery, and water.
- 1.4 We were notified by the FRC in early February that we have retained our UK Stewardship Code signatory status.

2 Recommendations

- 2.1 The Joint Committee is asked to note the report.

3 Engagement – Priority Themes Mapping

- 3.1 Our four priority themes for engagement are 1) low carbon transition; 2) waste and water; 3) social inclusion through labour management and 4) diversity of thought. An engagement plan has been developed incorporating the Net Zero engagement strategy, with a proposed programme of engagement across these four priority themes. The themes have been mapped back to engagement currently being undertaken.

- 3.2 **Low carbon transition:** analysis was conducted to determine current engagement coverage. Gaps in coverage were identified to address the goal of engaging 80% of financed emissions by 2025. Priorities include:
- joining the IIGCC Net Zero engagement initiative (4.4);
 - expectations of external managers to engage with high emitters across their portfolios;
 - internal engagement conducted by RI team and portfolio managers;
 - expectations for Robeco to increase engagement coverage and support the Border to Coast RI team.
- 3.3 **Waste and water:** to increase coverage we have joined a collaborative engagement led by one of our Sterling Investment Grade Credit managers engaging with the UK water utility companies (4.2). As none of the companies are listed this also demonstrates our ability to engage across our fixed income portfolios.
- 3.4 **Social inclusion through labour management:** current engagement to support this theme is through two of Robeco's engagement themes. We also engage with companies through our support of the Workforce Disclosure Initiative (WDI). Robeco will be launching a new engagement in 2023 focusing on forced labour and modern slavery (4.5). We have also joined the Rathbone Votes Against Slavery initiative and a complementary collaboration 'Find it, Fix it, Prevent it' led by CCLA, to further support this theme (4.3).
- 3.5 **Diversity of thought:** this theme is currently supported by our membership of 30% Club Investor Group and Robeco's engagement theme Diversity and Inclusion. We are a member of the 30% Club Race Equity Working Group and are engaging with FTSE 250 companies not meeting the Parker Review recommendations.
- 3.6 There are several proposed initiatives that will further support the priority themes that have yet to go through the formal governance route for discussion and approval.
- 3.7 A framework will be developed to monitor/track the engagement programmes and track the progress of companies against objectives.

4 Engagement – Collaborative Engagement Initiatives

- 4.1 We continue to work with other investors (asset owners and asset managers) to maximise Border to Coast's influence on behalf of Partner Funds and joined a number of collaborative engagement initiatives in recent months.
- 4.2 We have recently joined an initiative engaging with the UK water utility sector led by one of our UK sterling investment grade credit managers. The engagement will focus on issues including pollution, climate adaptation, biodiversity, and governance. It supports one of the priority engagement themes – waste and water and we will be looking to lead the engagement with one company.
- 4.3 In January we joined the Rathbone-led Votes against Slavery initiative to support our social engagement theme. This is the fourth year that Rathbone has been engaging with companies ahead of the proxy voting season. The focus is on disclosure in line with section 54 of the Modern Slavery Act. To compliment this engagement on modern

slavery we have also joined the CCLA 'Find it, Fix it, Prevent it' collaboration which is engaging with companies across the high-risk hospitality and construction sectors to increase efforts to identify human trafficking, forced labour, and modern slavery in company supply chains.

- 4.4 The Institutional Investors Group on Climate Change (IIGCC) has launched a new collaborative net zero engagement initiative targeting companies outside the scope of Climate Action 100+ (CA100+). We have signed up to join and are awaiting to hear if we have been selected to be a lead engager with one of the target companies.
- 4.5 Robeco announced three new engagement themes which will be launched during 2023. This followed input from clients including Border to Coast. Two of the new themes directly support our priority themes:
- Forced Labour and Modern Slavery with engagement focusing on companies predominantly linked to the Asia-Pacific region operating in sectors highly exposed to forced labour risks, such as Consumer discretionary, Consumer staples, Technology, Healthcare.
 - Just Transition with engagement focusing on companies in emerging markets that are enabling and/or contributing to the just energy transition.
 - Tackling Tax Transparency where engagement will focus on improving the transparency of companies over their tax status, and what they actually pay to the governments of the countries in which they operate.

5 Signatory Status

- 5.1 We are a signatory to the UN-supported Principles for Responsible Investment (PRI). Signatories report annually against the PRI's Reporting Framework which was revised in 2021. There were significant issues with the revised Reporting Framework and following this a group of UK asset owners have been in active conversation with the PRI regarding future reporting options, with several being discussed. The revised Reporting Framework for 2023, which is an interim measure, has been published. We are expecting clarification in March on reporting expectations for UK asset owners.
- 5.2 We were notified by the FRC in early February that we have been successful in retaining our signatory status to the UK Stewardship Code. Feedback has been received which will be reflected in the report currently being prepared for the 2022-23 reporting year.

6 Recruitment

- 6.1 Recruitment to fill additional positions in the RI team is continuing, with a number of recent additions. A Stewardship Manager and a trainee RI Analyst have recently joined the team, and we have a Climate Change Manger starting in late March.

7 Reporting

- 7.1 We produce quarterly and annual reports detailing our responsible investment activities. The quarterly stewardship reports produced by Border to Coast and Robeco, along with the voting reports for the fourth quarter can be found on our [website](#).

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. There may be reputational risk if we are perceived to be failing in this area and our management of climate risk.
- 8.2 There is a risk that insufficient resources are in place to realise the Responsible Investment strategy.

9 Conclusion

- 9.1 An engagement plan incorporating our Net Zero commitment has been developed for each of our priority engagement themes. This includes supporting several new collaborative initiatives.
- 9.2 We continue to work collaboratively with other investors to increase our influence and have supported a number of new initiatives aligned with our priority engagement themes.
- 9.3 We have published the regular quarterly reports on stewardship (voting and engagement) which detail our activities as an active steward. All reports can be found on the website.
- 9.4 The Committee is asked to note the report.

10 Author

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

1 March 2023

Important Information

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511). The information provided in this paper does not constitute a financial promotion and is only intended for the use of Professional Investors. The value of your investment and any income you take from it may fall as well as rise and is not guaranteed. You might get back less than you invested. Issued by Border to Coast Pensions Partnership Ltd, Toronto Square, Leeds, LS1 2HJ



Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: 21 March 2023

Report Title: Summary of Investment Performance and Market Review

Report Sponsor: Joe McDonnell (CIO)

1 Executive Summary

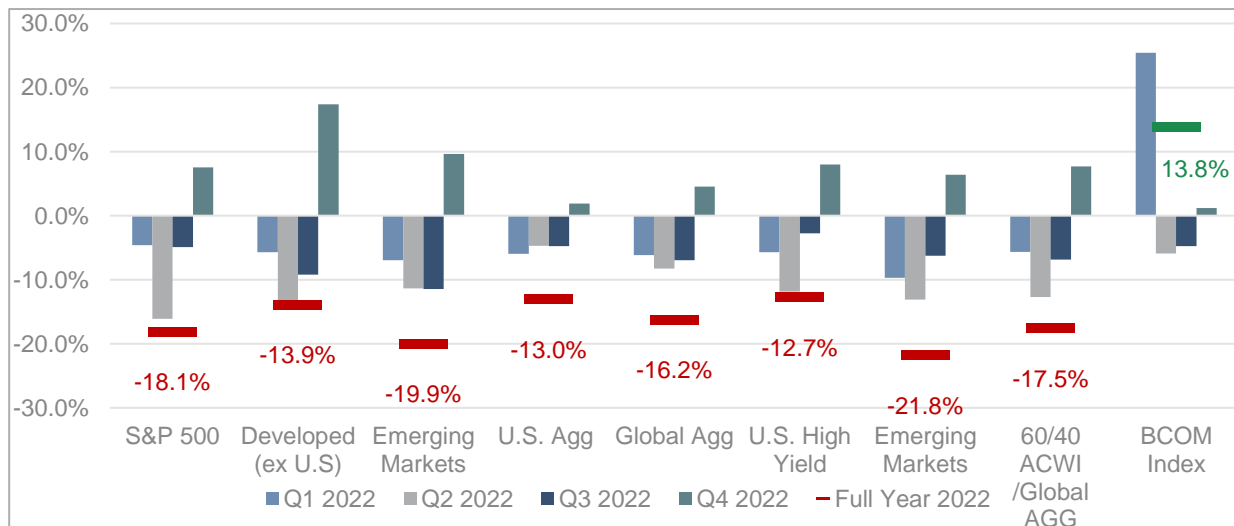
1.1 This report provides an overview of the macroeconomic and market environment, the performance of Border to Coast funds and the medium-term investment outlook.

2 Recommendations

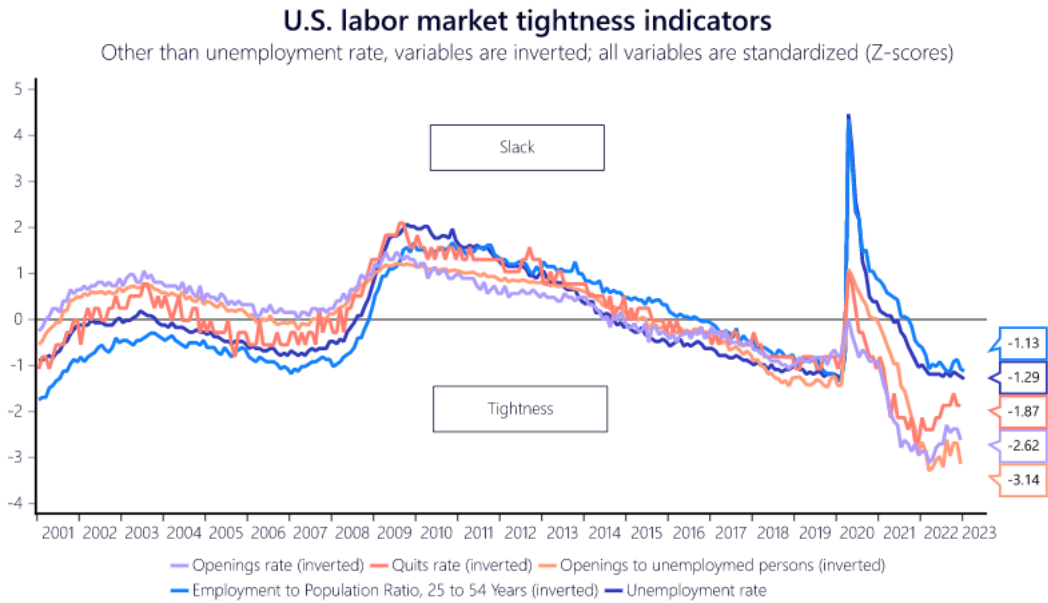
2.1 That the report is noted.

3 Macroeconomic environment

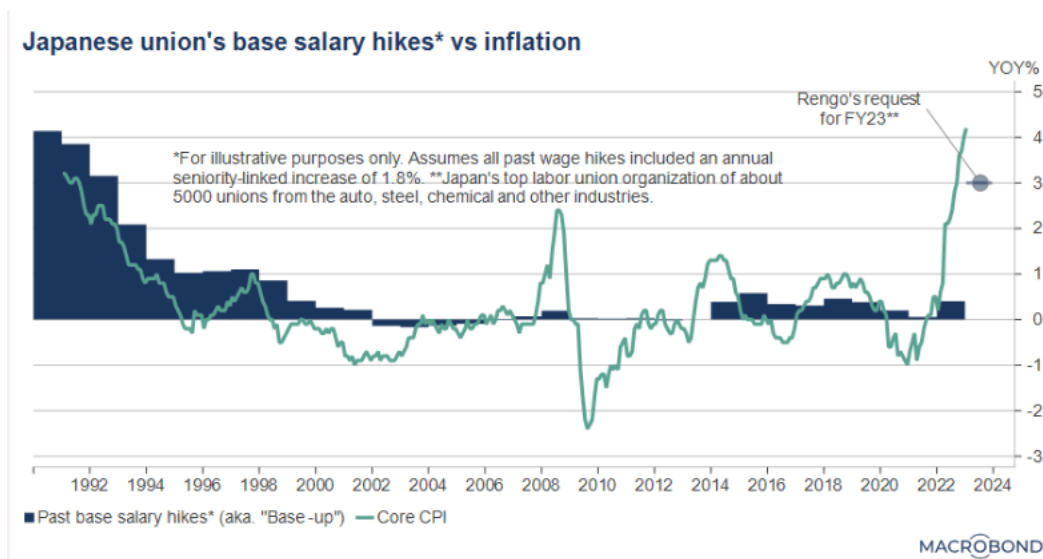
3.1 2022 was an extremely challenging year. The S&P returned -18% and volatility was high throughout the year. The Energy sector had its best year in 30 years +60%, while consumer discretionary -38% and communication services -40% had their worst years ever. Real Estate -28% and Technology -29% had their worst years since the Financial Crisis. At the same time the rising rate environment played havoc in bond markets – Global Aggregate bonds returned -16%. Higher inflation tends to compromise the diversification benefit of bonds and equities. A balanced portfolio of 60/40 returned -17.5% last year.



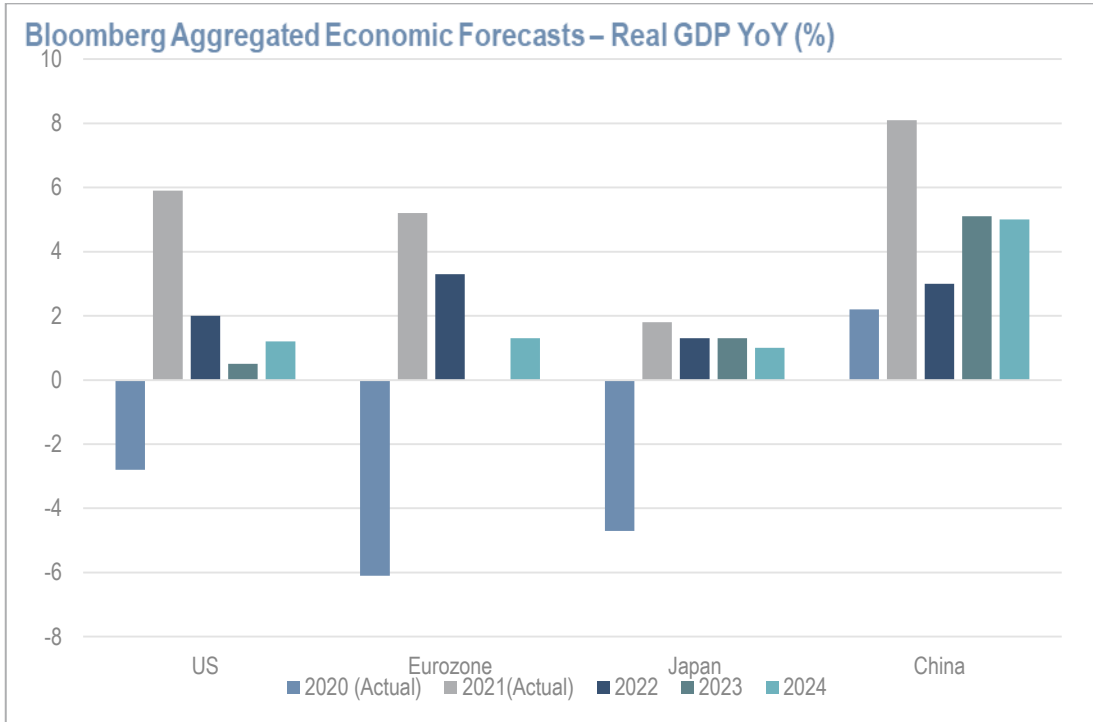
- 3.2 Inflation remains a key concern but recent data suggests that we should witness notable falls in 2023. The positive supply news, warm weather and the related falls in natural gas prices have provided relief to both consumers and governments. Global CPI peaked at 9.8% in 3Q22 and the forecast for 2023 is 5.3%. However, the road to lower inflation may be choppy as services and wages are likely to be slower to adjust.
- 3.3 In the US wage gains are likely to keep inflation above target. While we are seeing some softening in jobs data – notably with technology firms – as can be seen in the diagram below the overall picture is that the job market remains tight,



- 3.4 The same wage pressure is working through in other major economies. Notably, after decades of wage stagnation, this year Japan is finally seeing wage growth. For decades, base salary hikes have been negligible (see chart below), but the BOJ hopes this will spur a virtuous wage-price inflation spiral.

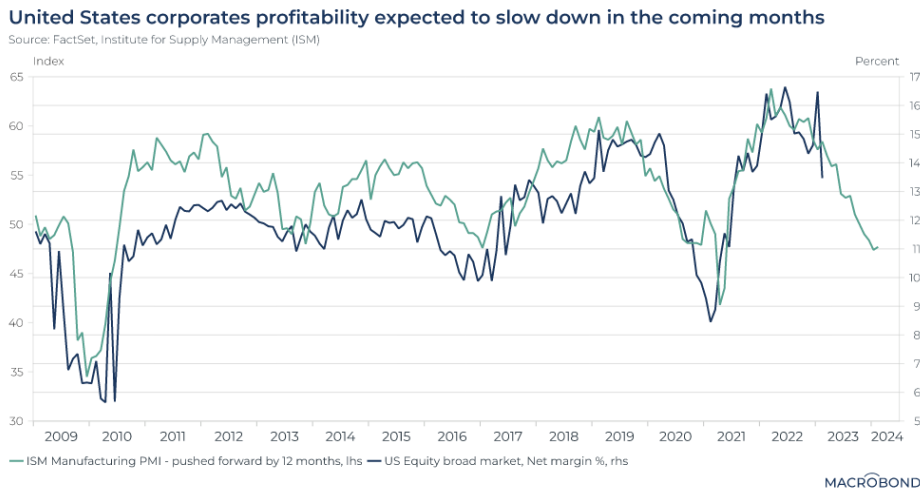


3.5 A warmer winter, improved supply chains, a reopening of China are all leading to the central belief of a non-recessionary growth path and slow, bumpy gradual disinflation. The base case for 2023 is global growth at a meagre 2.4%, down from 3.2% in 2022 and the lowest – leaving aside the crisis years of 2009 and 2020 – since 1983.



Source: Bloomberg

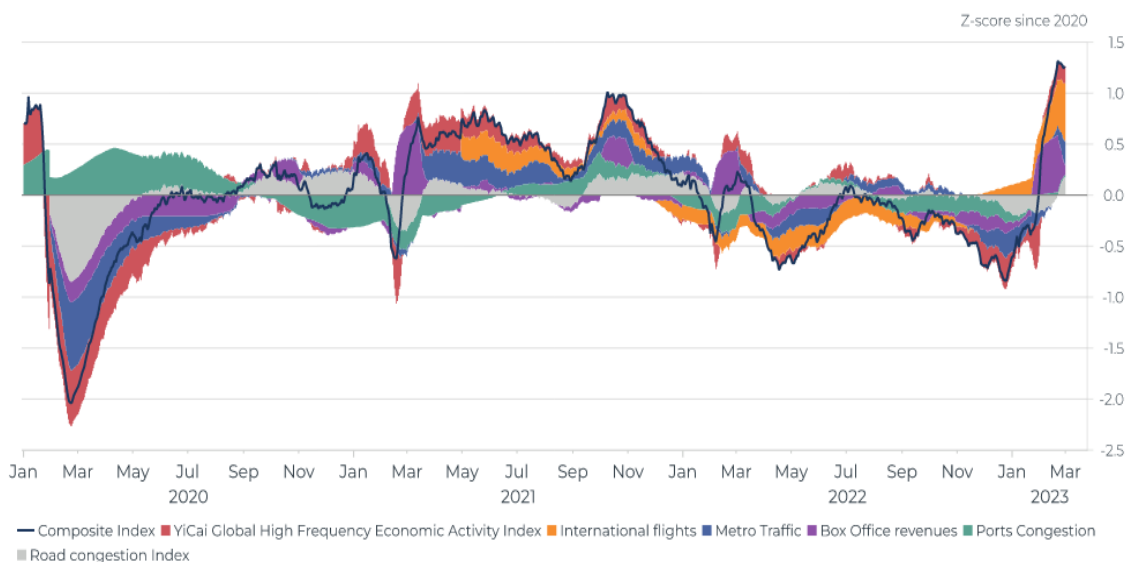
3.6 We are likely to see a sharp decline in corporate profitability in the coming months and this, coupled with higher borrowing costs, will be a headwind for equity markets. Anticipating a slump in corporate profitability the chart below explores the relationship between US companies' profitability and the Institute for Supply Management's purchasing managers index (PMI) for manufacturers. The closely watched PMI surveys are a measure of whether economic contraction is likely, based on whether supply-chain managers are expecting growth to pick up (readings above 50) or recede (below 50). It appears that the ISM PMI is a leading indicator of corporate net margin – closely correlated with a 12-month lag, as our chart shows. Watch for corporate profitability to deteriorate.



- 3.7 Unfortunately while global growth is modest and recession risk remains, global interest rates are likely to increase further (although the pace and magnitude of hikes will moderate). The scale of the move in borrowing costs is likely to be a bigger drag on growth. Financial conditions have tightened fast, and households face significantly higher mortgage and credit costs.
- 3.8 While the drop in inflation is a welcome relief in the UK (likely to average 6% in 2023) – rates will continue to rise (4.5% is expected peak) with no cuts until well into 2024. Nevertheless, UK sentiment has improved over the last few months – helped by the Windsor framework on Northern Ireland, bumper profits from large FTSE constituents and a less volatile bond market.
- 3.9 China exiting from its zero-COVID strategy is a very positive development. Production growth has returned and consumer demand is set for a strong start and will lead the overall recovery this year. Property could be the next source of upside growth. Given the importance of China to global growth a strong 2023 will in turn support economic activity elsewhere. Against this is the continued political tensions between China and the US.
- 3.10 The chart below shows a composite index to capture the waxing and waning of pandemic restrictions over the past three years. The index uses a broad range of daily alternative datasets, including port activity, road congestion, subway usage, international flights and box-office sales. The chart measures the z-score, or deviation from the historical mean (zero). Throughout 2022, the composite index and most of its components were almost always below average. The strong shift since the start of 2023 is obvious; the most lively indicators are the rebound in box-office revenue and flights abroad.

China: reopening composite index

The composite index is built using various alternative daily datasets (roads & ports congestion, subway traffic, international flights, box office and economic activity index)



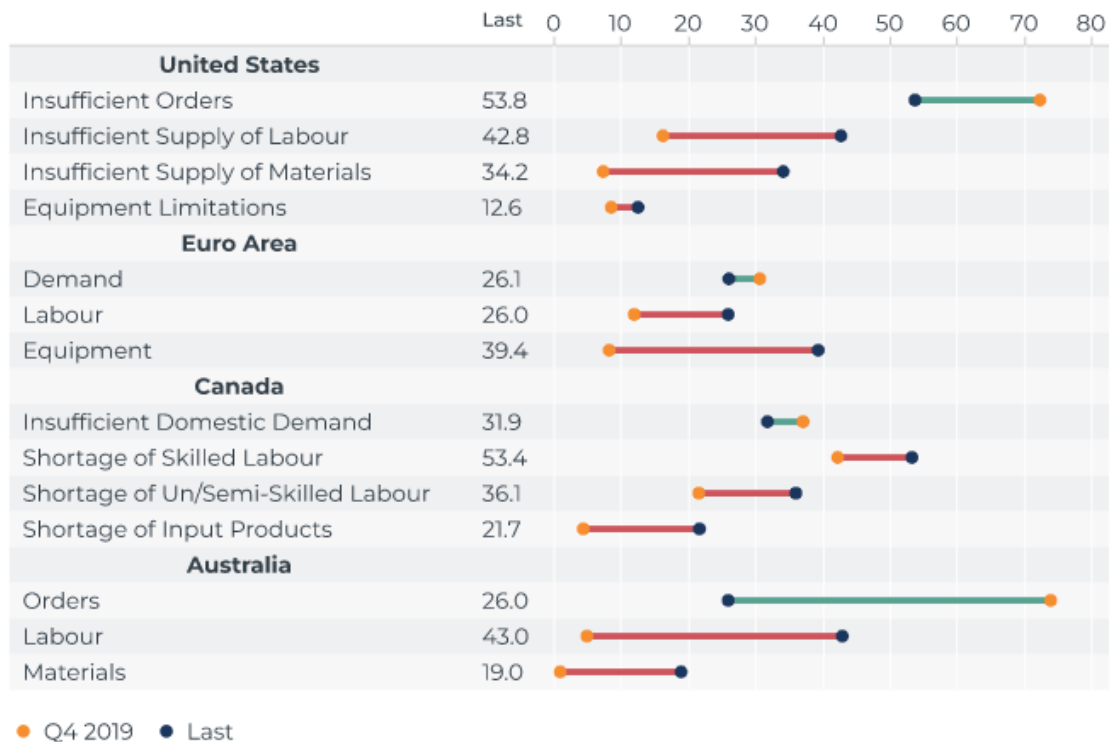
MACROBOND

- 3.11 The worst of the supply-chain disruptions may be behind us, but this is not a return to normal. The chart below is based on surveys that ask companies in the US, Canada, Australia and the Eurozone about issues that are holding back production. Broadly, the factors measured are demand, the availability of labour and the ease of obtaining raw

materials and equipment. The red lines are trends that are getting worse; green lines show improvement from 2019. These four economies are sharing the same struggles.

Factors limiting production

Source: U.S. Census Bureau, DG ECFIN, CFIB, Australian Chamber of Commerce & Industry



MACROBOND

3.12 The economic crystal ball is as cloudy as ever. We are now past Inflation peak soon as energy prices moderate significantly and supply chain issues abate, nonetheless, it does seem likely that inflation and interest rates will remain higher than most developed markets have experienced over most of the last 10 years.

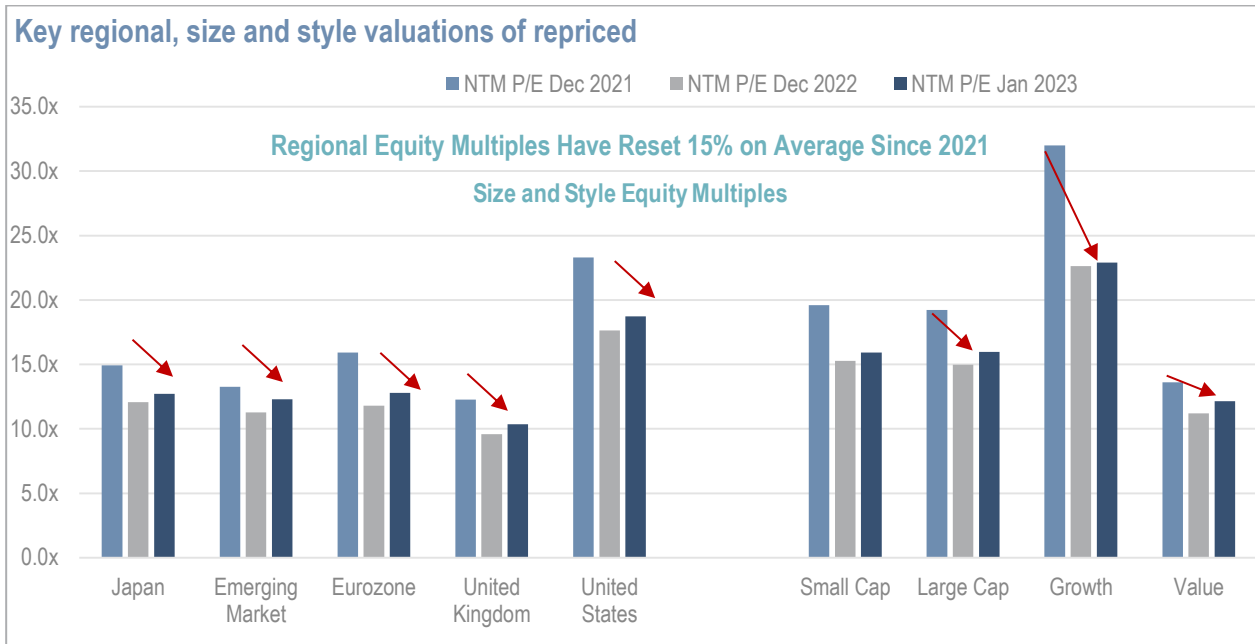
Consensus economic forecasts for 2023 as at March 2023

	Real GDP	CPI Inflation	Unemployment	10-year Sov Bond Yield
UK	-0.6%	6.6%	4.3%	3.1%
US	0.8%	4.0%	3.9%	3.5%
Germany	0.0%	6.1%	5.6%	2.1%
Japan	1.2%	2.1%	2.5%	0.6%
China	5.3%	2.4%	4.1%	3.0%

Source: Bloomberg

4 Market Valuations

4.1 As at year end 2022, US Equities S&P 500 had a forward P/E of 17x close to the 10 year average while the FTSE 100 had a forward P/E of 9.5x versus a 10 year average of 13x. The graph below illustrates that P/E ratios have dropped across the board. Obviously, the composition of the FTSE explains its outperformance in 2022 (after lagging for a number of years) but there continues to be value and its earnings/income is considered less vulnerable than other markets. As at year end the FTSE had a dividend yield of 3.75% versus 1.76% for the S&P.



4.2 The rally in January was owed primarily to the belief that the Fed would pivot later in 2023 and switch from hiking to cutting rates. While this is unlikely it does indicate a return premium from policy that avoids, delays or softens recession. Historically, after a significant sell off like we saw in 2022 the tendency (albeit small sample size) has been for the full-year return to be positive and meaningfully so. The below chart supports this view:

A Big January After A Down Year Has Bulls Smiling

S&P 500 >5% Or More In January After A Negative Year

Year	January Return	Previous Year Returns	Full Year Return
1954	5.1%	-6.6%	45.0%
1961	6.3%	-3.0%	23.1%
1967	7.8%	-13.1%	20.1%
1975	12.3%	-29.7%	31.5%
2019	7.9%	-6.2%	28.9%
2023	6.2%	-19.4%	?
		Average	29.7%
		Median	28.9%
		% Positive	100.0%

Source: Carson Investment Research, FactSet 01/31/2022
@ryandetrick



4.3 Government bonds yields have continued to move higher. The yield on the US Government 2 years is now 4.6% which is very close of the earnings yield on the \$S&P 500, a relative level not seen since the Global Financial Crisis. Yields in most major credit markets more than doubled during 2022. This correction on bond yields does challenge investors to ask the question why buy equities rather than bonds unless one believes there is an excessive equity risk premium to be harvested. In 2023 this trade-off between a repriced bonds and volatile equities will be a key dynamic.

4.4 In the highly uncertain macro-economic environment the dollar dominated 2022 and rallied strongly against G10 currencies. Forecasting what currencies will do is a very tricky exercise but a softer dollar would be consistent with moving past peak inflation, moderating growth but avoiding recession, improved geopolitics and smooth China

reopening. Obviously, all of these factors could turn the opposite direction hence, it is very difficult to have conviction on currency performance.

5 Fund Performance

- 5.1 The table below shows performance data for the ACS funds (listed assets) to 31 December 2022 for funds with more than 12 months since inception. Do note these returns are annualised.

% Since inception	Type	Launch date	Return	Benchmark	Relative
Equities					
UK Listed Equities	Internal	Jul-18	3.9	2.9	+1.0
UK Equity Alpha	External	Dec-18	4.6	5.8	-1.2
Overseas Developed	Internal	Jul-18	8.2	6.9	+1.4
Global Equity Alpha	External	Oct-19	8.1	8.4	-0.3
Emerging Market Equities	Hybrid	Oct-18	2.7	4.8	-2.1
Fixed Income					
Sterling Investment Grade Credit	External	Mar-20	-2.8	-3.8	+1.0
Sterling Index Linked Bonds	Internal	Oct-20	-22.5	-22.9	+0.3
Multi Asset Credit Fund	Hybrid	Nov-21	-9.4	4.8	-14.1

- 5.2 As discussed, nominal market returns have been poor in 2022 – In a high inflation environment the ‘usual’ diversification benefit of equity and bonds failed. Nevertheless, the relative returns achieved by our internal equity (UK Listed and Overseas Developed) were ahead of target in 2022. Also good relative performance came from our Sterling Inflation Linked, Sterling Investment Grade credit and our external Global Alpha strategy.
- 5.3 The strong relative performance of our internal equity strategies is a function of taking modest active risk and avoiding large sector or style risk. So while there was significant sector rotation this did not weigh on our internal team. In 2022 a modest risk budget has gone well versus high tracking error, style bias equity management.
- 5.4 By contrast, externally managed equity capabilities have been buffeted by style volatility. During the pandemic large growth stocks, particularly in the technology and health sectors, performed strongly. More recently growth stocks have led the market falls, as shown in the chart above. This has been a challenging environment for our external managers.

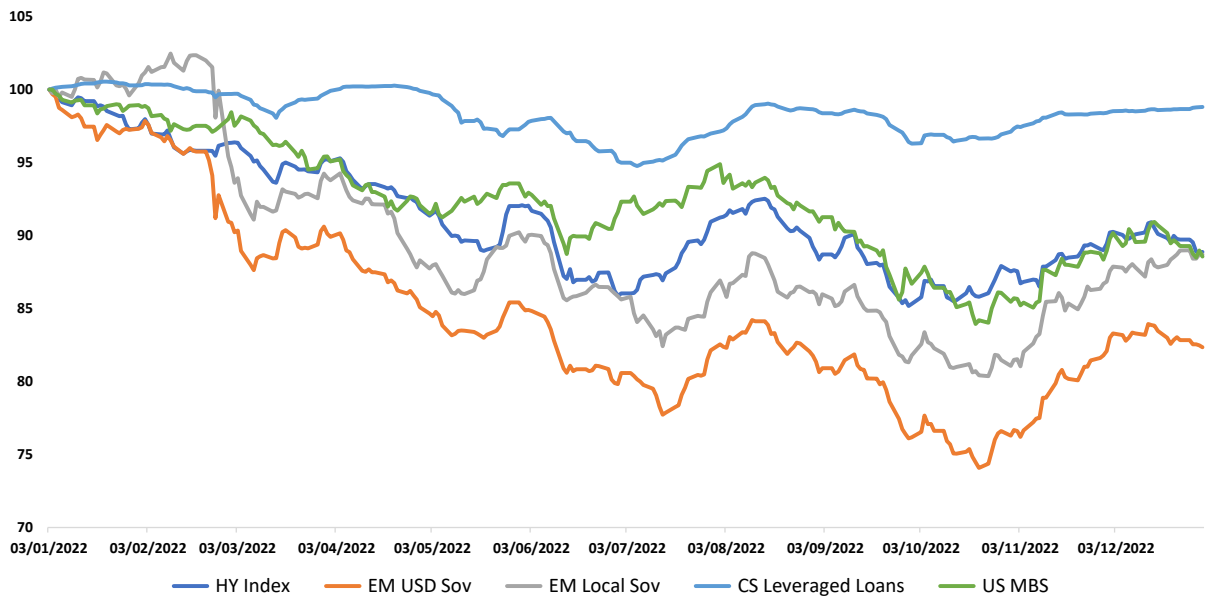
World, Equity Indices, MSCI, Mid & Large Cap, Index, Total Return, USD



Source: Macrobond, 25.08.22

5.5 All credit suffered in 2022 as high rates and broader macro concerns took hold. This meant a very difficult year for our Multi-Asset Credit fund. Performance was driven by a re-rating of general credit risk (alongside other risk assets) rather than any notable escalation in the defaults. In such a backdrop a cash plus benchmark (always positive) is a very challenging hurdle and under performance was pronounced.

Credit asset performance - 2022



5.6 The most surprising outcome given the upturn in inflation is the Sterling Index Linked Bond fund with an annualised return since inception of -22.5%. This reflects the remarkable fall in the index linked gilt benchmark as real yields have risen. The fund has exceeded its relative return target, but this outperformance has been dwarfed by the scale of the benchmark move.

6.0 Looking forward

6.1 Moderating inflation will be a positive development in 2023 but at the same time earnings are likely to fall. Policy error (too hawkish) could be the mistake that drags us into a recession. However, our base case is that this is avoided.

- 6.2 Income generating assets will no doubt be an important consideration in the strategic assessments of the Partner Funds. Bond yields are much higher than a year ago, and real yields have moved higher. There is now a meaningful yield to support credit but a key focus for investors will be tracking new issuance and if seeing if there is any meaningful uplift in defaults as growth slows.
- 6.3 Equity valuations are also closer to historic averages, but a lot depends on the future outlook for profits. While financial markets are discounting a recession in developed economies, valuations could be undermined if the downturn is longer or deeper than currently expected.
- 6.4 Even as inflation moderates it is not likely to return to explicit targets for some time. Governments will likely allow above trend inflation to persist. With that in mind Investors will continue to look for diversified sources of investment return, particularly from assets offering explicit or implicit inflation protection. This may encompass a broad range of alternative assets and strategies, including real assets, such as infrastructure and property.
- 6.5 We saw notable dispersion in 2022 between large cap/small cap, growth and value and regions (UK/US). Investors need to be careful extrapolating what worked in 2022. The high-risk free rate available today is a very new experience for investors and will make risk aversion less expensive. Hence, flight to quality will likely feature more in 2023.

7.0 Author

Joe McDonnell (CIO)
Joe.mcdonnell@bordertocoast.org.uk
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