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PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

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

Date: Tuesday, 13 June 2023

Time: 1.30 pm

Membership:

Chair:-

Cllr Doug McMurdo

Bedfordshire Pension Fund

Membership:-

Cllr George Jabbour

North Yorkshire Pension Fund

Cllr Doug Rathbone

Cumbria Pension Fund

Cllr David Sutton-Llyod

Durham Pension Fund

Cllr Paul Hopton

East Riding Pension Fund

Cllr Eddie Strengiel

Lincolnshire Pension Fund

Cllr Jill Ewan

Teesside Pension Fund

Cllr Jayne Dunn

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

Item	Subject	Page
1	Apologies/Declarations of Interest	
2	Minutes of the Meeting held on 21 March 2023	5 - 10
3	Schedule of Future Meetings	11 - 12
4	Update of impact on Committee membership of Local Elections	13 - 14
5	Annual Elections	
6	Joint Committee Budget	15 - 16
7	Responsible Investment Update	17 - 20
8	Market Review	21 - 28
*9	CIO Review of External Investment Process (Exemption Paragraph 3)	29 - 48
*10	Annual Proposition Review: Externally Managed Equity Funds (Exemption Paragraph 3)	49 - 58
10.1	Annual Review - Emerging Market Equity (Exemption Paragraph 3)	59 - 70
10.2	Annual Review - Global Equity Alpha (Exemption Paragraph 3)	71 - 82
10.3	Annual Review - UK Listed Equity Alpha (Exemption Paragraph 3)	83 - 98
*11	UK Opportunities Fund Design (Exemption Paragraph 3)	99 - 110
*12	CEO Report (Exemption Paragraph 3)	111 - 128
*13	Investment Review Quarter Ended 31 March 2023 (Exemption Paragraph 3)	129 - 142
*14	Standing Item - Update on emerging Matters (Exemption Paragraph 3)	

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Minutes of the Border to Coast Joint Committee

Tuesday, 21 March 2023 - Border to Coast Offices, Toronto Square, Leeds, LS1 2HJ

Present

Partner Fund	Councillor	Officers in Attendance
Bedfordshire	Cllr Doug Mc Murdo	Andy Watkins Michael Batty
Cumbria	CC Mel Worth	Debbie Purvis
Durham	Cllr Mark Abley	Paul Cooper
East Riding	Cllr Nigel Wilkinson	Tom Morrison (also North Yorkshire)
Lincolnshire	CC Eddie Strengiel	Jo Kempton
North Yorkshire	Cllr Patrick Mulligan (in the Chair)	
South Yorkshire	Cllr John Mounsey	George Graham Gill Richards
Surrey	CC Nick Harrison	Neil Mason
Teesside	Cllr Eric Polano	Nick Orton
Tyne and Wear	Cllr Anne Walsh	Ian Bainbridge Paul McCann
Warwickshire		Andrew Felton Chris Norton

Border to Coast Pensions Partnership Attendees

Name	Position
Chris Hitchen	Chair
Cllr David Coupe	Shareholder Nominated Non-Executive
Cllr John Holtby	Shareholder Nominated Non-Executive (from item 10)
Rachel Elwell	Chief Executive Officer
Fiona Miller	Deputy Chief Executive Officer
Joe McDonnell	Chief Investment Officer
Mark Lyon	Deputy Chief Investment Officer
Graham Long	Head of External Management
Jane Firth	Head of Responsible Investment
Ewan McCulloch	Chief Stakeholder Officer
Milo Kerr	Head of Client Relationship Management

Members of the Joint Committee agreed that Cllr Mulligan as Vice Chair should chair the meeting as due to personal circumstances Cllr McMurdo had been unable to prepare for the meeting.

1. Apologies for Absence and Declarations of Interest

Apologies were received from:

Cllr Christopher Kettle – Warwickshire

Linda Bowen - Scheme Member Representative

Nicholas Wirz – Scheme Member Representative

Members declared no interests in addition to those included in the relevant register.

2. Minutes of the Meeting Held on 30th November 2022

RESOLVED – That the minutes of the meeting held on 30th November 2022 be agreed as a true record.

3. Schedule of Future Meetings

George Graham introduced a report on behalf of the Secretary to the Joint Committee setting out proposed dates for future meetings for the period up to 2025/26.

Members requested that place holders be issued so that dates were set aside in electronic diaries sufficiently far in advance and officers undertook to arrange this.

RESOLVED – To note the proposed dates for meetings of the Joint Committee and member workshops for the next three years as set out in the report.

4. Annual Elections

George Graham introduced a report on behalf of the Secretary to the Joint Committee setting out a request from the Board of the Border to Coast Company in relation to the process for proposing Shareholder Nominated Non-Executive Directors intended to achieve stability during the transition to the new arrangements previously agreed by the Committee.

Members also discussed contingencies in the event that a Shareholder Nominated Non-Executive Director were not re-elected as a Councillor. The consensus view was that this would need to be considered on a case by case basis with some consideration being given to the remaining term.

Following discussion Cllr McMurdo proposed and Cllr Walsh seconded a resolution which was carried unanimously, and it was therefore:

RESOLVED – To recommend to shareholders that the term of office of Cllr John Holtby as a Non-Executive Director of Border to Coast be extended until September 2024.

5. Joint Committee Budget

Nick Orton as Chair of the Officers Operations Group presented a report setting out the forecast 2022/23 outturn for the Joint Committee's budget and proposing that a

budget of £40,000 for the 2023/24 financial year. Following discussion of the potential impact of the current level of inflation on future costs it was:

RESOLVED –

- i. To note the forecast outturn for 2022/23 and the associated forecast overspend which will be recovered equally from partner funds.
- ii. To approve a Joint Committee budget for 2023/24 of £40,000 to be contributed equally by partner funds.

6. Governance Charter

Rachel Elwell presented a report setting out an updated Governance Charter reflecting the changes made in governance arrangements following the recent Governance Review.

RESOLVED – To approve the updated Governance Charter.

7. Responsible Investment Update

Jane Firth presented a report providing the Committee with an update on the Responsible Investment activity undertaken by the Company on behalf of Partner Funds over the period since the last meeting. Particular attention was drawn to the Company's involvement in a number of new collaborative initiatives as well as to retention of Stewardship Code accreditation and the strengthening of the Team through the addition of new members of staff. In discussing the report members raised the following issues:

- The relationship between investment exclusions and the ability of the Company to achieve Net Zero across its investment portfolios. In response it was noted that exclusions of which there are currently a small number are distinct from divestment and that the position remains that engagement is preferred and prioritised and that fund managers are expected to fully review the risks and opportunities associated with investment in any particular company. In addition, engagement with companies is increasing in the current voting season including engaging with BP and Shell where, according to the Voting Policy, Border to Coast will be voting against the Chairs. It was also noted that ongoing dialogue around specific votes was maintained with other organisations such as LAPFF.
- The need to be able to demonstrate to stakeholders the success of engagement.

Following discussion it was:

RESOLVED – To note the report.

8. Market Review

Joe McDonnell was welcomed to his first meeting as CIO and presented a report setting out the overall market background as context for the broader consideration of performance later on the agenda. It was emphasised that 2022 had been an

extremely difficult year from a macro perspective with equity and bond markets moving in concert and there being no diversification benefit. Looking forward both inflation and valuations seemed likely to moderate, although there continued to be significant volatility and headwinds such as reduced profit expectations.

In discussion members raised the following issues:

- The dangers of banking contagion
- The likelihood of significant defaults in credit markets
- Concerns about the future growth pattern in emerging markets

Following discussion it was:

RESOLVED – To note the report.

Exclusion of the Public and Press

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

9. Emerging Strategic Development

Rachel Elwell presented a report setting out details of a process which had been commenced to examine the next stages in the development of the Partnership. This would be a significant piece of work directly involving members of the Joint Committee at various stages and was being overseen by a Steering Group involving both members of the Joint Committee and the Company Board.

RESOLVED – To note the report

10. Review of External Investments inc Multi Asset Credit and Sterling Investment Grade Credit Annual Reviews

Graham Long presented a report which set out the conclusions of the annual reviews of the Multi Asset Credit and Sterling Investment Grade Credit Funds as well as the conclusions of a review undertaken of the external investment process.

Members raised detailed questions regarding the performance of specific managers in the two investment funds and the reasons for the ratings attached to them and the means by which ratings would be reassessed.

A number of concerns were raised about the review of the external investment process and the process to ensure that it was completed in a sufficiently objective manner.

Following discussion, it was:

RESOLVED –

- i. To note the contents of the report
- ii. To agree to receive a report from the Chief Investment Officer on the conclusions of his work on the external investment process at the next meeting of the Committee.

11. Sterling Index Linked Bonds Annual Review

Mark Lyon presented a report on the annual review of the internally managed Sterling Index Linked Bond Fund, which is performing in line with targets and expectations.

RESOLVED – To note the report.

12. CEO Report

Rachel Elwell presented a report setting out details of work undertaken across all aspects of the Company's activity during the previous quarter.

Members raised questions around:

- Details of the rationale for some changes in the analysis of particular types of risk.
- Progress in addressing people risks.

Following discussion, it was:

RESOLVED – To note the report.

13. Investment Review Quarter Ended 31st December 2022

Mark Lyon and Graham Long presented a report setting out the performance of all the Company's investment products over the most recent quarter. In discussion members noted:

- Queries with regard to managers on watch and the reasons for that rating.
- Queries with regard to risk levels in certain products.

Following discussion, it was:

RESOLVED – TO note the report.

14. Standing Item Update on Emerging Issues

Fiona Miller provided an update on the issues emerging from recent announcements concerning LGPS as part of the Chancellor's Spring 2023 UK Budget speech and noted that the Cross Pool Group was likely to meet to discuss them.

15. Retiring Members and Officers

Cllr Mulligan paid tribute to the contribution made to the work of the Committee by Cllr Mel Worth as this would be his last Joint Committee meeting due to the change

in administering authority for the Cumbria fund as a result of local government reorganisation.

Cllr Mulligan also paid tribute to the work of Ian Bainbridge both in supporting the Joint Committee and as Chair of the Officer Operations Group, who would be retiring as Head of the Tyne and Wear Fund before the next meeting.

Cllr McMurdo paid tribute to the contribution to the work of the Committee of Cllr Mulligan who's last meeting this was as a result of Local Government Reorganisation in North Yorkshire.

Members of the Committee endorsed these tributes.

CHAIR



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: 13th June 2023

Report Title: Membership of the Joint Committee

Report Author: George Graham (Director – SYPA)

1.0 Executive Summary:

1.1 This report sets out the membership of the Joint Committee for the coming Municipal Year for information and recommends that the Committee agree to appoint a Vice Chair at its next meeting in September.

2.0 Recommendation:

2.1 It is recommended that the membership of the Committee for the coming Municipal Year is noted.

2.2 It is recommended that the Committee agree to appoint a Vice Chair at its next meeting.

3.0 Election Results

3.1 Following the recent local elections and the annual meetings of the Committee's constituent authorities the membership of the Committee is as set out in the table below which also identifies the Chairs of the relevant Pensions Committees where they are not the same as the member of the Joint Committee. Changes from the previous Municipal Year are noted *.

PF	Pension Committee Chair	Joint Committee Member
Bedfordshire	TBC (20 th June)	TBC
Cumbria	Cllr Doug Rathbone*	Cllr Doug Rathbone*
Durham	Cllr David Sutton-Lloyd*	Cllr David Sutton-Lloyd*
East Riding	Cllr Paul Hopton*	Cllr Paul Hopton*
Lincolnshire	Cllr Eddie Strengiel	Cllr Eddie Strengiel
North Yorkshire	Cllr John Weighell	Cllr George Jabbour*
South Yorkshire	Cllr Jayne Dunn*	Cllr Jayne Dunn*
Surrey	Cllr Nick Harrison	Cllr Nick Harrison

Teesside	Cllr Julia Rostron*	Cllr Jill Ewan*
Tyne and Wear	Cllr Anne Walsh	Cllr Anne Walsh
Warwickshire	Cllr Christopher Kettle	Cllr Christopher Kettle

- 3.2 In addition to the above the two Scheme Member representatives Linda Bowen and Nicholas Wirz remain unchanged.
- 3.3 More than half the Chairs of Pension Committees have changed following this set of elections as have the members of the Joint Committee. In addition, there is some degree of change in the membership of the underlying Pension Committees with Cumbria having an entirely new committee due to Local Government reorganisation. This presents several challenges to ensure the continuing effective operation of the Committee and the wider partnership when such a significant proportion of members are new to their role and the Partnership and have not been on the same journey through the creation of the Partnership as others and when new relationships must be established. Officers and the Company will be looking to provide appropriate support both to Joint Committee members and Pension Committees to address these challenges in the coming months.
- 3.4 Former Cllr Patrick Mulligan from North Yorkshire who was Vice Chair of the Joint Committee is no longer a member of the Committee and therefore the Committee needs to appoint a Vice Chair. Given the significant turnover in membership it would perhaps be sensible to allow members some time to become familiar with each other prior to making such an appointment, which will be for the remainder of the Municipal Year and therefore it is recommended that the appointment of a Vice Chair is made at the next meeting in September.

Report Author:

George Graham – Director - South Yorkshire Pensions Authority.

ggraham@sypa.org.uk

01226 666439



Border to Coast Joint Committee

Date of Meeting: 13th June 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 final budget position for 2022/23
- Note the budget position for 2023/24

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 at 31st March 2023, the total expenditure incurred against the budget was £43,145. 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 2023/24 Joint Committee Budget

3.1 At the Joint Committee meeting in March 2023, a budget of £40,000 was approved for 2023/24.

3.2 To date only a small amount of expenditure (£394) has been incurred which relates to the final piece of legal work for the Governance Review.

4.0 Conclusion

4.1 For 2022/23 the expenditure exceeded the Joint Committee Budget.

4.2 For 2022/23, only a small amount of expenditure has been incurred.

Report Author:

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

Further Information and Background Documents:

N/A



Border to Coast Pensions Partnership Joint Committee

Date of Meeting: 13th June 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 update is provided on collaborative engagement initiatives we are supporting, as well as engagement undertaken by Robeco.
- 1.3 Peak AGM voting season is underway. As part of the escalation in engagement with the oil and gas sector we have voted against the chair of several oil and gas companies that are not meeting our assessment framework on climate risk.
- 1.4 We continue to respond to consultations related to responsible investment either directly or through our membership of industry bodies such as the Investment Association.
- 1.5 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](#).

2 Recommendations

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

3 Engagement update

- 3.1 We have several strands to our engagement strategy which includes direct engagement, engagement through Robeco (our voting and engagement partner), our external asset managers engaging, and working collaboratively with other investors (asset owners and asset managers) to maximise Border to Coast's influence on behalf of Partner Funds.

- 3.2 As part of the collaborative engagement initiative led by Royal London Asset Management with the UK water utility sector, initial meetings with all 11 companies are underway. We are leading engagement with Yorkshire Water and will be supporting engagement with the other 10 companies.
- 3.3 The Rathbones led engagement initiative - 'Votes Against Slavery', to improve supply chain transparency focused upon 38 non-compliant companies from the FTSE 350. Of the 12 that Border to Coast is invested, 8 are now compliant. Failure to comply results in votes against the acceptance of the company's annual report and accounts during the 2023 AGM season. Engagement is ongoing.
- 3.4 Robeco closed its engagement theme Lifecycle Management of Mining at the end of March. This theme was launched in 2020 on the back of the engagement on tailings dams led by Robeco as part of the Investor Mining & Tailings Safety Initiative. The aim of the theme was for companies to mitigate their impacts on the environment and included specific objectives relating to improving water management, increasing the safety management of tailing dams, and improving asset retirement planning. This theme targeted five mining companies held by Border to Coast. Progress was made on the management of water risk and disclosure of tailings facilities. However less progress was seen on the phasing out of high-risk tailing storage facilities and asset retirement. Engagement with the sector will continue through Robeco's involvement in the Mining 2030 initiative which was launched earlier this year. This is looking to address key systemic risks that challenge the mining sector's ability to meet increasing mineral demand for the low carbon transition.
- 3.5 We have supported The Workforce Directors Investor Guidance and accompanying Statement developed by Railpen. The Guidance was developed by Railpen following requests from some portfolio companies for the investor perspective on workforce directors. The Guidance was launched in April and supported by eight asset owners and asset managers. A roundtable event has been held at the Institute of Directors which we attended. This was an informal discussion bringing investors and companies together on how to raise awareness and engagement mechanisms for firms and boards.

4 Voting

- 4.1 The Voting Guidelines are revised annually, with input from Partner Funds and continue to be strengthened regarding climate change. This includes a climate risk assessment framework for the oil and gas and banking sectors. We are in the midst of peak AGM voting season and have voted against the chair of several oil and gas companies that are not meeting our assessment framework. This includes Transition Pathway Initiative (TPI) scores and meeting Climate Action 100+ Net Zero Benchmark indicators. We are also voting against the chair of the sustainability committee at banks not meeting the climate voting framework. Up to 26th May we have voted against 16 company chairs and sustainability committee chairs; this includes BP and Shell where we also pre-declared our voting intentions. We have contacted all companies prior to the AGM and have asked Shell for a follow up meeting post the AGM.

5 RI strategy

- 5.1 One of the RI strategy pillars is engagement and advocacy with the investment industry, this includes responding to consultations. We recently fed into the Investment Association's response to the FCA's discussion paper on Finance for Positive Sustainable Change with the final version including the point we raised in terms of meeting the skills challenge around sustainability. We also submitted a response to the ASCOR (Assessing sovereign climate-related opportunities and risk) consultation which closed at the end of March. This framework when published will assist investors in assessing sovereign debt from a climate change perspective.
- 5.2 A working group has been set up with Partner Funds to support future TCFD reporting. Two sessions have been held so far which have been positively received. It was expected that LGPS Funds would be required to produce TCFD reports for the current financial year by December 2024. However, in an update to the Cross-Pool RI Group the LGA indicated that due to the large number of responses to the consultation (many were long, detailed and technical) which are being reviewed by DLUHC, the earliest that reporting will be required will be for the 2024/25 financial year (December 2025), but it could slip beyond this. Although disappointing the LGA also see this as an opportunity. For example, to see how occupational schemes are reporting and giving smaller schemes more time to prepare.
- 5.3 We have received and analysed responses to the third iteration of the Alternatives Annual ESG Monitoring Questionnaire. We have seen a strong year on year improvement to both the content and overall quality of responses. This is particularly impressive given the growth in the number of General Partners (GPs) and funds we have. Although it is hard to compare our data to the market, generally our GPs appear more advanced in the key areas of responsible investment, including climate change, than the broader market.

6 Reporting

- 6.1 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](#).
- 6.2 As a signatory to the UN-supported Principles for Responsible Investment (PRI) we are expected to report annually against the PRI's Reporting Framework. Last year, due to significant issues with the new framework the PRI paused reporting for signatories. A revised Reporting Framework for 2023 has now been published and will be open to signatories to report against from June to September.

7 Risks

- 7.1 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.
- 7.2 There is a risk that insufficient resources are in place to realise the Responsible Investment strategy.

8 Conclusion

- 8.1 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.
- 8.2 We continue to work collaboratively with other investors to increase our influence and have supported several new initiatives aligned with our priority engagement themes.
- 8.3 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.
- 8.4 The Committee is asked to note the report.

9 Author

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

23 May 2023

Important Information

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Border to Coast Pensions Partnership Joint Committee

Date of Meeting: 13 June 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

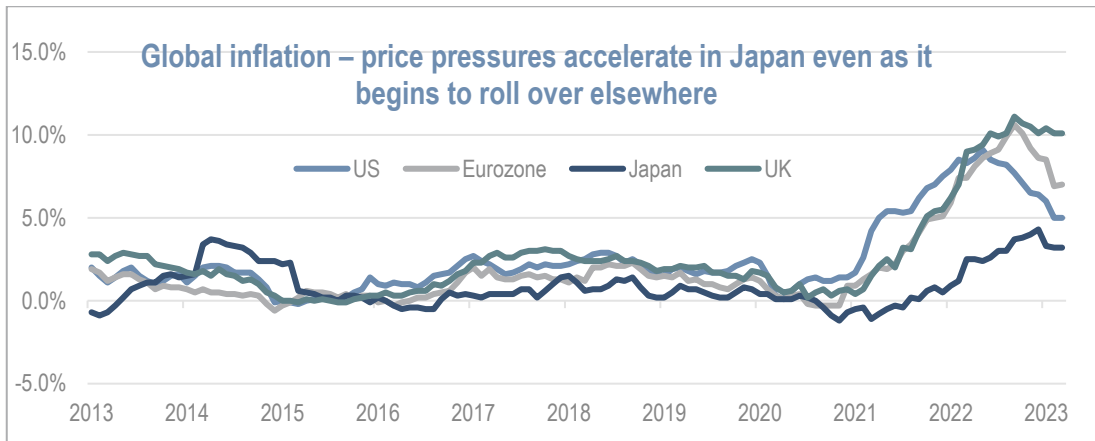
3.1 In the first quarter of 2023 risk assets did well, Global Aggregate bonds returned +3% over the quarter and the fall in yields also led to a rally in growth stocks by more than +14% while value delivered just 1% over the quarter. Much of this good performance was owed to supportive economic activity levels.

3.2 The fall in market volatility and relative strength in Q1 was also driven by the belief that we are closer to the end of the tightening cycle and the Fed will eventually take the lead when we get into an easing phase.

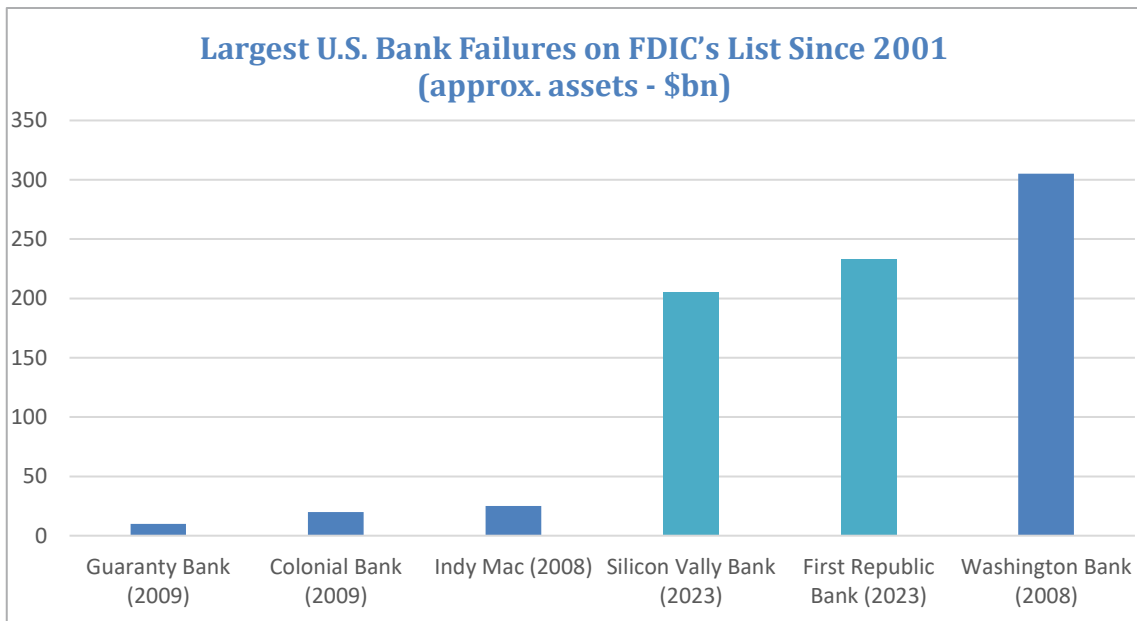
3.3 Earnings are expected to decelerate in the second half of the year which will further support the argument to bring an end to rate hiking.

3.4 Geopolitical risk remains a drag with ongoing US debt ceiling posturing and the Ukraine conflict escalating as the leading factors.

3.5 The general view is that while inflation is stickier than expected it will gradually ease throughout the rest of the year. As you can see in the below diagram all Developed Market economies other than Japan should see a significant fall in inflation in the second half of 2023.

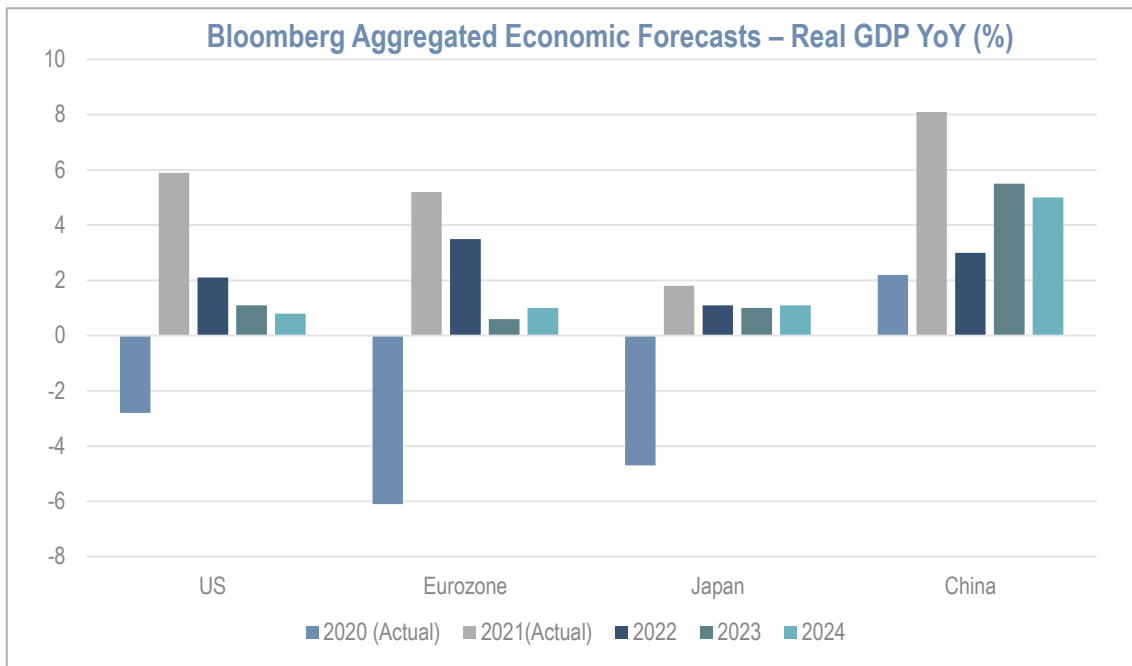


3.6 There was a dramatic turn of events in March with Bank failures in the US with Silicon Valley Bank, which catered to the tech industry, collapsing. This was not a one-off event with subsequent pressure put on weaker US regional banks (First Republic) and this subsequently spilled over to weaker European financials (Credit Suisse). The below diagram illustrates that the recent bank failures are very material.

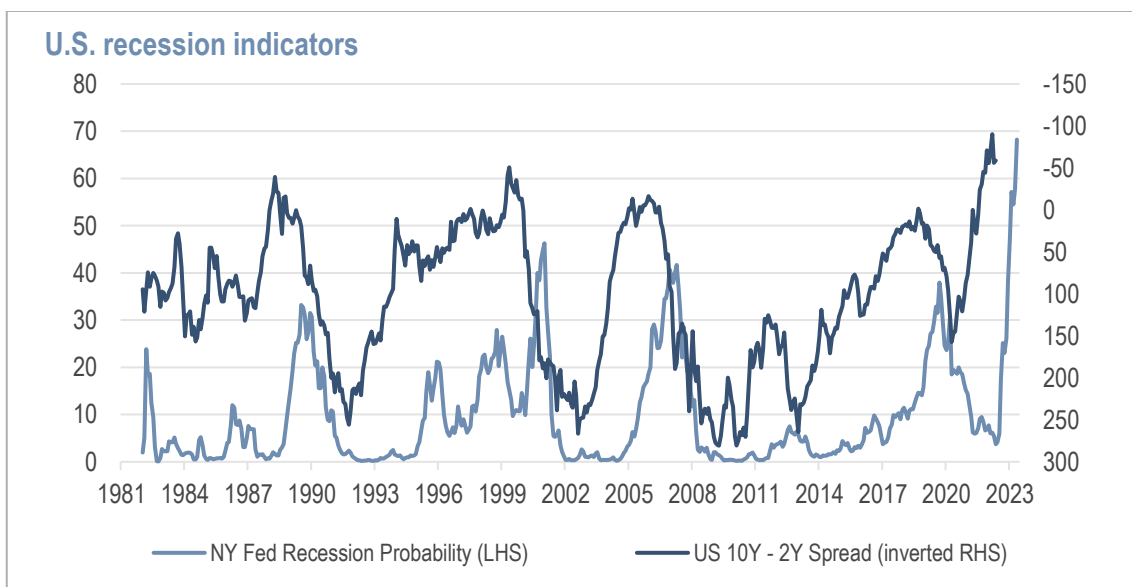


3.7 In the short term, an immediate response from regulators and stronger banks helped reduce market volatility but these events did highlight – banks with poor business models can fail. Credit conditions are tightening, and this often leads to further financial stresses. Undoubtedly, banks/other lenders are looking to reduce risk and pursue a higher quality borrower. As rates are at attractive levels, we are seeing bank deposits fall as money market funds grow. Hard economic landings/recessions are historically preceded by tight lending standards.

3.8 Global growth is decelerating – in particularly, in the US and Europe. While post COVID China is accelerating it is unclear if this recovery will be sustained. China recovery is pretty crucial for the prospects of Global growth. At the moment it is somewhat uneven. Domestic flights have recovered to 84% of pre-COVID level and auto sales are improving but steel production has fallen. The real estate market remains the largest concern and home sales have weakened visibly.



3.9 The slowdown in economic growth and the challenges of trying to manage a soft landing while raising rates quickly over the past 12 months is increasing the probability of recession. The diagram below – shows that the New York Fed is estimating a 70% probability off recession over the next 12 months which is further indicated by an inverted yield curve.

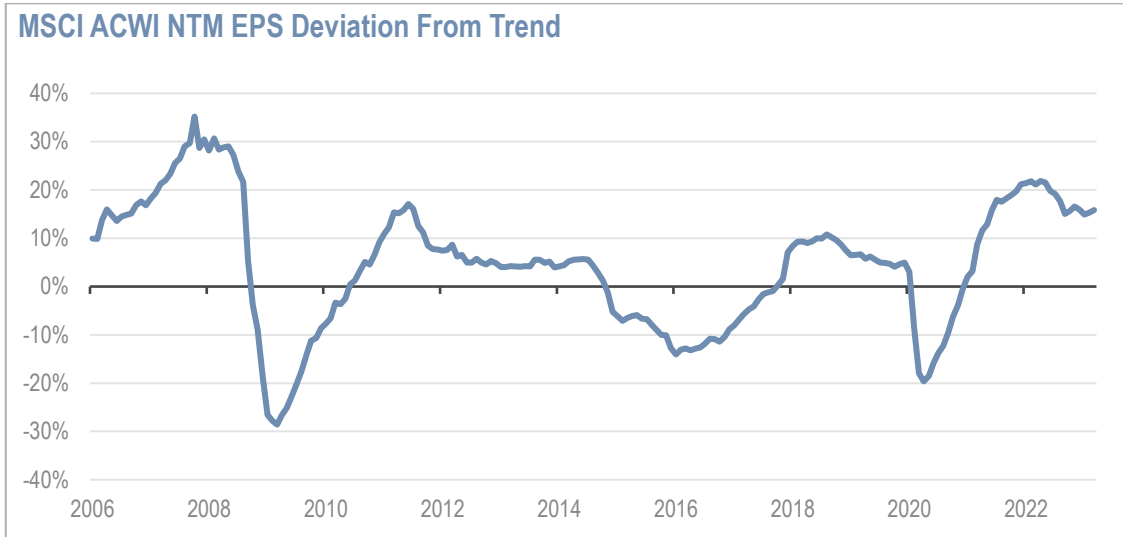


3.10 The labour market is still solid but there are signs of a cool down. There are headline job losses coming from individual companies but US, EU and UK wage growth remains robust.

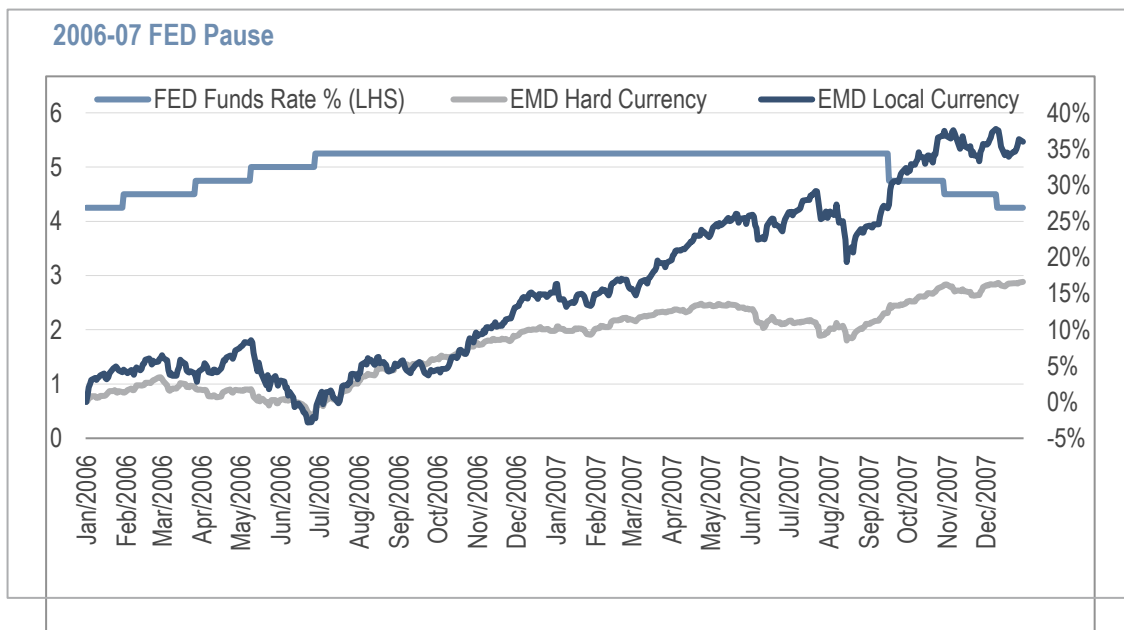
3.11 Lower energy prices are certainly helping cushion growth in Europe, and this should ease pressure on real wages, although the outlook here is at the mercy of the evolution of the Ukraine-Russia conflict.

4 Valuations

- 4.1 The equity risk premium has come down a lot, particularly in the US and the dividend yield gap to government bonds has evaporated except for Japan. Cash and bonds now offer competitive yields versus equities.
- 4.2 In terms of market valuations equity earnings estimates are significantly above trend and vulnerable to downturn.



- 4.3 While corporate spreads have widened, they are still close to historical averages. Investment Grade (end of April +141bps versus +137bps 30-year median) and High Yield +453bps versus +462bps 30-year median).
- 4.4 From a valuation perspective emerging market have a brighter prospect after two years of weak growth versus developed countries. Manufacturing PMIs (activity) are better than developed markets. Previous episodes of FED pause tended to be positive for EM bonds, as long as a deep global recession is averted. The diagram below looks at one of these periods when there was a pause in interest rates hikes (2006-7). When this occurred local emerging market debt did particularly well.



5 Fund Performance

5.1 The table below shows performance data for the ACS funds (listed assets) to 31 March 2023 for funds with more than 12 months since inception. Note these returns are annualised.

% p.a. Since inception	Type	Launch date	Return	Benchmark	Relative
Equities					
UK Listed Equities	Internal	Jul-18	4.3%	3.4%	+1.0%
UK Equity Alpha	External	Dec-18	5.7%	6.2%	-0.5%
Overseas Developed	Internal	Jul-18	8.8%	7.6%	+1.3%
Global Equity Alpha	External	Oct-19	9.5%	9.1%	+0.4%
Emerging Market Equities	Hybrid	Oct-18	2.8%	4.6%	-1.8%
Alternatives					
Listed Alternatives	Internal	Feb-22	-4.5%	2.3%	-6.8%
Fixed Income					
Sterling Investment Grade Credit	External	Mar-20	-1.7%	-2.8%	+1.1%
Sterling Index Linked Bonds	Internal	Oct-20	-19.0%	-19.3%	+0.3%
Multi Asset Credit Fund	Hybrid	Nov-21	-6.0%	5.3%	-11.2%

5.2 The relative performance of our internal equity funds (UK Equity & Overseas Developed) remains above target. Managing to a relatively tight tracking error in avoiding major factor/sector positions and more focus on stock selection to generate excess returns has worked well.

5.3 The performance of our externally managed equity funds (UK and Global Alpha) has improved significantly in Q1 2023. Global Alpha is now above benchmark and UK Equity Alpha, while still lagging, has made up ground.

5.4 Emerging Markets Equity underperformed from inception to the restructure in early 2021 when the mandate of the internal sleeve was changed to ex China and two specialist China managers were added. Although the recent performance of the internal sleeve in particular has been strong, the fund has underperformed its post restructure benchmark. Performance has been impacted by an overweight to Russia at the time of the Ukraine invasion and difficult market conditions in China.

5.5 Our Listed Alternative fund that was launched in Q1 2022 has struggled and this reflects investor concern over listed private market strategies. Since inception the portfolio has suffered from a significant currency mismatch with sub-funds having a structural underweight during a period of \$US strength. The fact that a large proportion of the listed alternatives universe is highly sensitive to interest rates has also been a drag on performance. On a forward-looking basis these headwinds could become tailwinds and the high embedded yield (versus equities) should be supportive.

5.6 Credit did stabilise in Q1. Sterling Investment Grade saw solid relative performance of our managers and the fund is above its performance target. After a very disappointing 2022 Inflation linked bonds return +5% in Q1 and the relative performance of our internal funds remains above target. Multi-Asset Credit (MAC) did do better in Q1 but the relative

performance versus a cash plus benchmark remains negative. MAC has performed poorly since inception falling short of its absolute (cash plus) performance target.

6. Looking forward

- 6.1 We have transitioned from a world of low/negative yields, abundant liquidity, globalisation, no inflation, profit margin tailwinds and investor willingness to back long-term growth to a world of normalised/attractive yields, contracting liquidity, fragmentation, structurally higher inflation, profit margin headwinds and a 'cash now' environment.
- 6.2 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. Investors will be focused on how material will be China recovery.
- 6.3 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. Central Banks are closer to the end of the tightening tunnel. 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. We remain optimistic on income generating assets from government bonds to credit and liquid alternatives.
- 6.4 Equity valuations are also closer to historic averages, but a lot depends on the 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.
- 6.5 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.
- 6.6 We saw notable dispersion in 2022 between large cap/small cap, growth and value and regions (UK/US) and this flipped around in Q1 2023 with growth out-performing value by a considerable margin. This is tricky from an asset allocation perspective, and it is important that investors have a good balance of factors exposure in their equity portfolios. 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.

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25 May 2023

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