

# Public Document Pack



**PENSIONS PARTNERSHIP**

**BCPP JOINT COMMITTEE**

## **AGENDA**

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

**Date:** Thursday, 28 September 2023

**Time:** 10.15 am

### **Membership:**

#### **Chair:-**

Cllr Doug McMurdo

Bedfordshire Pension Fund

#### **Membership:-**

Cllr George Jabbour

North Yorkshire Pension Fund

Cllr David Sutton Lloyd

Durham Pension Fund

Cllr Nick Harrison

Surrey Pension Fund

Cllr Jill Ewan

Teesside Pension Fund

Cllr Christopher Kettle

Warwickshire Pension Fund

Cllr Jayne Dunn

South Yorkshire Pension Fund

Cllr Eddie Strengiel

Lincolnshire Pension Fund

Cllr Paul Hopton

East Riding Pension Fund

Cllr Doug Rathbone

Cumbria Pension Fund

Cllr Anne Walsh

Tyne and Wear 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

Tuesday, 13 June 2023 - Border to Coast Offices, Toronto Square, Leeds, LS1 2HJ

### Present

Partner Fund	Councillor	Officers in Attendance
Bedfordshire	Cllr Doug Mc Murdo (in the Chair)	Andy Watkins
Cumbria	Cllr Doug Rathbone	Pam Duke Alison Clark
Durham	Cllr David Sutton-Lloyd	Paul Cooper
East Riding	Cllr Paul Hopton	Tom Morrison (also North Yorkshire)
Lincolnshire	Cllr Eddie Strengel	Jo Kempton
North Yorkshire	Cllr George Jabbour	
South Yorkshire	Cllr Jayne Dunn	George Graham
Surrey	Cllr Nick Harrison	Neil Mason
Teesside	Cllr Jill Ewan	Nick Orton
Tyne and Wear	Cllr Anne Walsh	Paul McCann
Warwickshire	Cllr Christopher Kettle	Andrew Felton Victoria Moffett

### Scheme Member Representatives

Linda Bowen  
Nicholas Wirz

### 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
Milo Kerr	Head of Customer Relationship Management

The Chair welcomed a number of new members to the Committee.

### **1. Apologies for Absence and Declarations of Interest**

There were no apologies.

Cllr Jabbour declared a non-pecuniary interest in relation to the nature of his campaigning work and commentary.

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

### **2. Minutes of the Meeting Held on 21<sup>st</sup> March 2023**

RESOLVED – That the minutes of the meeting held on 21<sup>st</sup> March 2023 be agreed as a true record.

### **3. Schedule of Future Meetings**

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

### **4. Membership of the Committee**

George Graham introduced a report on behalf of the Secretary to the Joint Committee setting out the revised membership of the Committee following the recent local elections and proposing to conduct the election for the role of Vice Chair at the next meeting.

RESOLVED –

- i. To note the membership of the Joint Committee.
- ii. To approve the proposal to appoint a Vice Chair at the September meeting of the Joint Committee.

### **5. Annual Elections**

There were no matters to report.

### **6. Joint Committee Budget**

Nick Orton as Chair of the Officers' Operations Group presented a report setting out the 2022/23 outturn for the Joint Committee's budget together with a forecast for 2023/24.

RESOLVED –

- i. To note the budget outturn for 2022/23.
- ii. To note the forecast budget position for 2023/24.

### **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 work being done with Partner Funds on developing climate reporting and the development of ESG practice by private market managers reflected in the annual questionnaire results. In discussing the report members raised the following issues:

- How many votes against management had been carried which would indicate the success of the various policies being tightened. It was explained that this would be available on the completion of “voting season”. However, it was emphasised that significant minority votes against management did result in action on the part of companies.

RESOLVED – To note the report.

## **8. Market Review**

Joe McDonnell presented a report reviewing market conditions and giving a high-level view of the performance of the various investment propositions. Particular attention was drawn to the impact of inflation on market sentiment and also the different characteristics of inflation in different geographies. In general markets had held up quite well although it was important to note that interest rates in the UK had returned to the post “mini budget” level. In relation to performance 5 of 9 propositions were ahead of benchmark with particularly strong longer-term performance from the internally managed funds recognised in recent award success. The propositions that had performed less well were felt to be well positioned in relation to evolving market conditions. In discussing the report members raised the following issues:

- The different likely path for UK inflation compared to other significant markets related both to the significant services component in the UK economy and areas of import dependence.
- The performance of the Multi-Asset Credit (MAC) Fund and the broad trajectory of returns. In this area it was felt that previous forecasts of a recovery (albeit slow and uneven) were being borne out by events due to the quality in the portfolio which reflects a lot of embedded value.
- A request to include the AUM for each of the investment propositions in future reports which was agreed, as providing added context. It was also agreed to include performance against target as well as benchmark in future reports to provide a clearer indication of success, or otherwise.
- In relation to the Listed Alternatives Fund it was emphasised that the portfolio had strong underlying characteristics but did have a high degree of interest rate sensitivity and had suffered from being underweight USD relative to GBP. However, the product demonstrated a strong running yield of c5% pa compared to c 2% from the S&P.
- The future of investment in China where it was noted that there seemed to be an upwards trend in growth albeit unclear whether the recovery will be sustained.

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. CIO Review of the External Management Process**

Joe McDonnell presented a report on the results of his review of the process for procuring external managers and constructing and managing multi-manager externally managed, or hybrid, products. This had drawn broadly positive conclusions and had made some recommendations for future development including capabilities to support the dynamic asset allocation process. Members asked a number of detailed questions concerning both the conclusions of the review and some of the areas which the recommendations sought to address. Following discussion it was:

RESOLVED – To note the report.

### **10. Annual Proposition Reviews – Externally Managed Equity Propositions**

Graham Long introduced a report setting out the results of the annual reviews of the three externally managed equity propositions (UK Equity Alpha, Global Equity Alpha, and Emerging Market Equity). While there remained room to improve performance of each of the propositions, although noting that performance of Global Equity Alpha had recently improved and was now above target over a 3 year period, it was felt that they were generally well positioned in relation to market conditions and that all demonstrated strong ESG characteristics.

Following discussion it was:

RESOLVED – To note the report

### **11. Alternatives – UK Opportunities Proposition Development**

Mark Lyon introduced a report setting out details of the proposed design of a new multi-asset alternatives product focussed on opportunities to address investment in UK growth and “levelling up “in a way consistent with Partner Funds’ overall objectives. It was emphasised both that clear arrangements for managing potential conflicts around “local” investment would be in place but also that there would be a protocol for receiving and dealing with potential opportunities being fed from Partner Funds to underlying managers.



Members raised a number of detailed queries in particular around the need to maintain returns and to maintain a focus on genuinely investable propositions.

Following discussion, it was:

RESOLVED –

- i. To note the contents of the report
- ii. To delegate to officers the authority to review the contractual documentation required to support the launch of the UK Opportunities Proposition.

## **12. CEO Report**

Rachel Elwell introduced her quarterly report on the company's activity drawing attention to work on new propositions, corporate developments and the external environment in which the Company was operating. In debating the report the degree of communication and collaboration that goes on with other pools as a matter of routine was explained to members and following discussion it was:

RESOLVED – To note the report.

## **13. Investment Review Quarter Ended 31<sup>st</sup> March 2023**

Joe McDonnell, Graham Long and Mark Lyon introduced a detailed review of the performance of the various investment propositions over the most recent quarter. In particular attention was drawn to the availability of performance information for the first series of the alternatives programme. Members raised a number of detailed queries on specific propositions and asked that their congratulations be conveyed to the Equity and Alternatives Teams on their recent award success. Following discussion, it was:

RESOLVED – To note the report.

## **14. Standing Item Update on Emerging Issues**

There was nothing to report under this item.

The meeting closed at 3.25pm

CHAIR

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## Border to Coast Joint Committee

**Date of Meeting:** 28<sup>th</sup> September 2023  
**Report Title:** Election of Vice Chair  
**Report Author:** Jo Stone (Head of Governance – SYPA)

### 1.0 Executive Summary:

1.1 This report sets out the arrangement for the election of a Vice Chair to the Committee which was deferred at the last meeting.

### 2.0 Recommendation:

2.1 A ballot is held at the meeting with the candidate receiving the most votes appointed as Vice Chair for the remainder of this municipal year and the next municipal year.

### 3.0 Nominations

3.1 The Director of the South Yorkshire Pensions Authority wrote to all members of the Joint Committee inviting them to put themselves forward for the role of Vice Chair. The following nominations were received:

Cllr C Kettle – Warwickshire CC

Cllr G Jabbour – North Yorkshire CC

3.2 The personal statements of those nominated have been provided to members of the Joint Committee separately.

*Either*

3.3 As there is more than one nomination an election will be held and ballot papers will be provided to members of the Joint Committee at the commencement of the meeting and the result will be declared at the end of the meeting.

### Report Author:

Jo Stone – Head of Governance - South Yorkshire Pensions Authority.

[jstone@sypa.org.uk](mailto:jstone@sypa.org.uk)

01226 666418



# George Jabbour

Mobile Number: 07958 790722

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**Members of the Joint Committee  
Border to Coast Pensions Partnership**

5th Floor  
Toronto Square  
Toronto Street  
Leeds LS1 2HJ

Date: 21<sup>st</sup> September 2023



Dear Colleagues,

**Subject:** Supporting Statement for the Vice Chair Nomination –  
Number of Words: 500

The next few months will be critical in shaping the future of the Local Government Pension Scheme.

The consultation that the Government has released about pooling and the proposed investment, reporting and training requirements will have a direct impact, not only on the Partner Funds, but also on Border to Coast.

To navigate this uncertain environment, it is essential for the Vice Chair to have the necessary technical skills, the ability to commit as much time as needed and the successful record in carrying out committee work.

## 1- Technical Skills

starting a business, I was named as one of the rising stars in investment banking in the country. During my career, I designed, structured and advised on pension solutions and investment strategies for some of the largest clients in the UK and across the world.

I have been an active and effective member of the North Yorkshire Pension Fund Committee. For instance, I recently attended a meeting with leaders from the UK pension and investment industry and the Governor of the Bank of England, Andrew Bailey, to discuss pension reforms.

## **2- Time Commitment**

As a full-time Councillor, I am able to dedicate as much time as required to become an effective Vice Chair and to perform the role to the highest standards.

I will of course be available to meet with Members and to answer your queries whenever you need me. I will also be available to travel across the country to meet with any Partner Fund if invited.

## **3- Committee Work**

I have a successful record working with colleagues from all backgrounds and on various committees to achieve the best possible response to the opportunities and challenges that we faced.

If I am privileged to be selected as the Vice Chair, I will work closely with Councillor Doug McMurdo as the Chair and with every Member of the Joint Committee, together with the team at Border to Coast.

**Please find here a selection of quotes from published articles to provide additional details about my professional experience:**

**The Financial Times:** *George 'was winning commendations for his work structuring derivatives trades at Goldman Sachs'.*

**The Sunday Express:** *George 'structured risk reduction and insurance deals for UK pension schemes' at Goldman Sachs.*

**The Independent:** *George is 'a leading adviser'... 'who has advised indebted governments on recovering losses made from complex transactions'.*

**The Telegraph:** George was *'a talented banker'* at Goldman Sachs...advised *'governments in countries including Portugal, Italy, France and Spain, on understanding and restructuring complex trades they may have entered into with banks'*.

**The Daily Mail:** George *'who successfully helped Portugal in the financial crisis, told Athens it could right historical wrongs as part of [its] plan to reduce Greece's debt'*.

Thank you for taking the time to consider my nomination. I look forward to seeing you on Thursday. In the meantime, please do not hesitate to contact me if you would like any additional information.

Best wishes,  
George Jabbour

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### 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 <sup>th</sup> June 2023 (Annual Meeting and Responsible Investment Workshop)	31 <sup>st</sup> March 2023	Tuesday 18 <sup>th</sup> June 2024 (Annual Meeting and Responsible Investment Workshop)	31 <sup>st</sup> March 2024	Tuesday 17 <sup>th</sup> June 2025 (Annual Meeting and Responsible Investment Workshop)	31 <sup>st</sup> March 2025
Thursday 28 <sup>th</sup> Sept. 2023	30 <sup>th</sup> June 2023	Thursday 26 <sup>th</sup> Sept. 2024	30 <sup>th</sup> June 2024	Thursday 25 <sup>th</sup> Sept. 2025*	30 <sup>th</sup> June 2025
Tuesday 14 <sup>th</sup> November 2023 (Responsible Investment Workshop) Virtual		Tuesday 12 <sup>th</sup> November 2024 (Responsible Investment Workshop) Virtual		Tuesday 11 <sup>th</sup> November 2025 (Responsible Investment Workshop) Virtual	
Tuesday 28 <sup>th</sup> Nov. 2023	30 <sup>th</sup> Sept 2023	Tuesday 26 <sup>th</sup> Nov. 2024	30 <sup>th</sup> Sept 2024	Tuesday 25 <sup>th</sup> Nov. 2025	30 <sup>th</sup> Sept 2025
Tuesday 26 <sup>th</sup> March 2024	31 <sup>st</sup> Dec 2023	Tuesday 25 <sup>th</sup> March 2025	31 <sup>st</sup> Dec 2024	Tuesday 24 <sup>th</sup> March 2026	31 <sup>st</sup> 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

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

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

22<sup>nd</sup> 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

28<sup>th</sup> – 29<sup>th</sup> Sept 2023

26<sup>th</sup> – 27<sup>th</sup> Sept 2024

25<sup>th</sup> – 26<sup>th</sup> 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 Pensions Partnership Limited**

### **Joint Committee**

**Date of Meeting:** 28<sup>th</sup> September 2023

**Report Title:** Joint Committee Budget

**Report Sponsor:** Nick Orton, Chair Officer Operations Group

#### **1.0 Recommendation**

1.1 The Joint Committee is asked to note the budget position for 2023/24.

#### **2.0 2023/24 Joint Committee Budget**

2.1 At the Joint Committee meeting in March 2023 a budget of £40,000 was approved for 2023/24. 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 £29,700. This all relates to legal costs for the review of the Border to Coast Global Property documentation.

2.7 Other expenditure which will be incurred on the current year, includes

- Secretariat support to the Joint Committee, from South Yorkshire Pensions Authority.
- Legal work to review the UK Property legal documentation.
- Legal work to review the shareholder agreement following proposed changes to the funding model.
- Travel and subsistence for the scheme member representatives on the Joint Committee.

### **3.0 Conclusion**

3.1 For 2023/24 the expenditure incurred to date is within the Joint Committee Budget.

#### **Report Author:**

Neil Sellstrom, [neil.sellstrom@southtyneside.gov.uk](mailto:neil.sellstrom@southtyneside.gov.uk)

#### **Further Information and Background Documents:**

N/A



## Border to Coast Joint Committee

**Date of Meeting:** 28 September 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 has concluded with votes against Chairs of oil and gas and top carbon emitting companies significantly increasing this season in line with our strengthened Voting Guidelines for 2023.
- 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 annual Responsible Investment & Stewardship Report, Climate Change Report and quarterly stewardship reports produced by Border to Coast and Robeco, along with the voting reports for the quarter ended 30<sup>th</sup> June 2023 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 our Low Carbon Transition engagement theme, and the focus on the oil and gas sector and high carbon emitting companies, we have increased engagement with companies ahead of the 2023 AGM season. 29 priority companies were identified for pre-AGM engagement where we advised of our voting intentions and provided the rationale. The list was made up of companies in the oil and gas and banking sectors or those in our top 50 emitters, which were subject to a vote against management in line with our strengthened voting policy. Plus, those resolutions covered by LAPFF alerts and other high profile shareholder resolutions where we intended to vote against management.
- 3.3 On-going engagement led by Rathbones with FTSE 350 companies assessed as non-compliant with section 54 of the Modern Slavery Act has led to only one of the 12 companies held by Border to Coast now considered not compliant. Engagement will continue with this company ahead of its AGM in April 2024.
- 3.4 In June, a new Just Transition engagement programme was approved. As part of this we have joined the Financing a Just Transition Alliance co-ordinated by the London School of Economics Grantham Institute and have started a collaboration with RLAM to engage with UK banks. We will also pilot engagement with an emerging markets energy utility company.
- 3.5 We are a co-lead for engagement with easyJet as part of the IIGCC Net Zero Engagement Initiative. Engagement with the company is due to commence following the assessment of easyJet's net zero targets and transition plan.
- 3.6 We are collaborating with RLAM to engage 11 UK water utilities on sewage pollution, water leaks, and climate change. During the quarter, investor expectations have been developed and all the companies assessed against them. The engagement asks are being finalised by RLAM and the lead engagers ahead of the next stage of engagement with the companies.
- 3.7 Robeco engage across a variety of themes covering environmental, social and governance issues with themes tending to run for three years. An engagement programme which began in 2020 engaged with companies significantly exposed to forest risk commodities, including beef, soy, pulp and paper, cocoa and natural rubber. Engagement targeted companies active across consumer staples, consumer discretionary, healthcare and materials supply chains. Progress was seen for all companies engaged, with the majority having set zero deforestation commitments and having improved sustainability reporting. Engagement on biodiversity will continue through the Nature Action 100 initiative, and the sovereign engagement work focused on supporting government agencies in their efforts to reduce deforestation rates in Brazil and Indonesia.

## 4 Voting

- 4.1 The peak voting season has drawn to a close and due to the strengthened voting approach on climate change, which includes a climate risk assessment framework for the oil and gas and banking sector, we have voted against the re-election of Chairs,

alternate directors or other items (such as reports and accounts) at over 50 oil and gas and other high emitting companies.

## 5 RI strategy

- 5.1 We continue to engage with the wider industry on systemic issues and have responded to the FCA's consultation on the Primary Markets Effectiveness Review, supporting the Investment Association response and flagged three areas of concern: the removal of the vote on significant transactions; the proposed changes on related party transactions vote; and the proposed changes to dual class share structures.
- 5.2 The working group set up with Partner Funds to support future TCFD reporting has continued to meet. Four sessions have been held to date and the TCFD pillars of Governance and Strategy have been discussed with Partner Funds sharing their ideas and approaches.
- 5.3 The three RI-related policies are reviewed annually. The review process commenced in July to ensure any revisions to the policy are in place ahead of the 2024 proxy voting season. The current policies were evaluated by Robeco, our voting and engagement provider, considering the global context and shift in best practice. The policies of best-in-class asset managers, and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. All seven other pools climate change policies were also reviewed. The governance process is underway and drafts have been presented to the Investment Committee and have been shared with Partner Funds ahead of an RI Workshop in early October.

## 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 We published our latest Responsible Investment & Stewardship Report in July which is available on our [website](#). This demonstrates our commitment to the UK Stewardship Code showing how we have applied the Code's 12 Principles over the previous year. To retain signatory status to the Code the report will be submitted ahead of the 31<sup>st</sup> October submissions window which is still available for current signatories. The report is assessed by the FRC as to whether it meets the required reporting standards, and if so, the applicant is then listed as a signatory to the Code.
- 6.3 As a supporter of the Task Force on Climate-related Financial Disclosure (TCFD) we have published our fourth report aligned with the TCFD recommendations. This year's report has been renamed as the Climate Change Report as it includes the metrics for our Net Zero commitment and updates on the progress that has been made. The Climate Change Report can be found on the Border to Coast [website](#).

## 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. To mitigate the risk, we have a 3-year RI strategy which is developed to reflect the shift in best practice. Reports on RI and stewardship are produced and published on the website to publicly disclose our activities in this area.
- 7.2 There is a risk that insufficient resources are in place to realise the Responsible Investment strategy. To mitigate this risk the resourcing of the RI team has increased and support is also provided by the Communications and Customer Relationship Management teams.

## 8 Conclusion

- 8.1 Engagement is continuing to support our priority engagement themes. This includes collaboration with one of our Sterling Investment Grade Credit managers , RLAM, with the UK water utility and banking sector.
- 8.2 We have published the regular quarterly reports on stewardship (voting and engagement) which detail our activities as an active steward. We have also published the annual RI & Stewardship Report and Climate Change Report. All reports can be found on the website.
- 8.3 The Committee is asked to note the report.

## 9 Author

Jane Firth, Head of Responsible Investment, [jane.firth@bordertocoast.org.uk](mailto:jane.firth@bordertocoast.org.uk)

13 September 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 Joint Committee

**Date of Meeting:** 28 September 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.

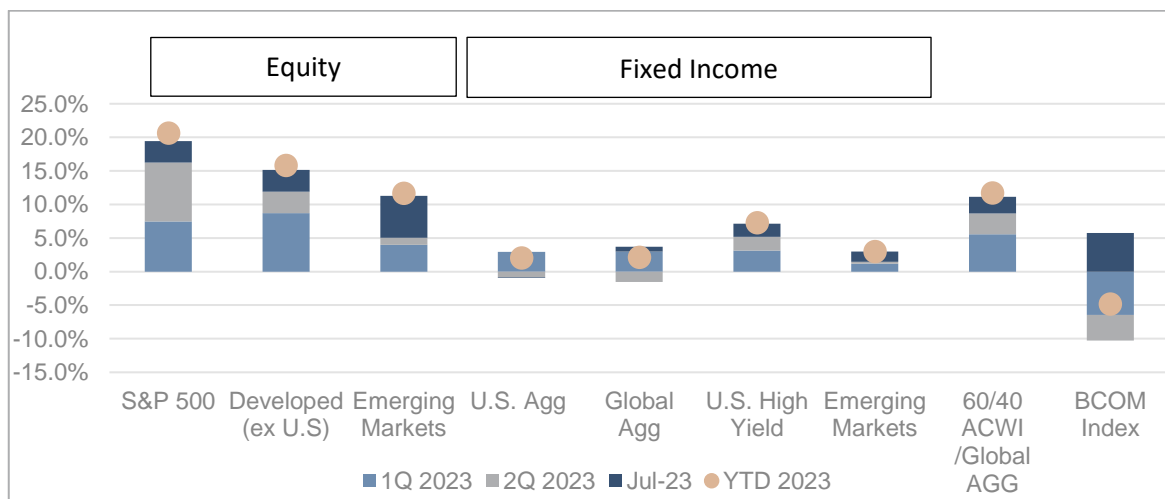
### 2 Recommendations

2.1 That the report is noted.

### 3 Macroeconomic environment

3.1 Risk assets have continued to perform well year-to-date. In 2023 stocks rebounded despite slowing growth, inflation and a mini-banking crisis.

3.2 There has been considerable performance dispersion with global growth stocks generating the lion share of all returns (MSCI ACWI Growth +18.34%) while value has had a disappointing year to date (MSCI ACWI Value -0.26%) to the end of August.

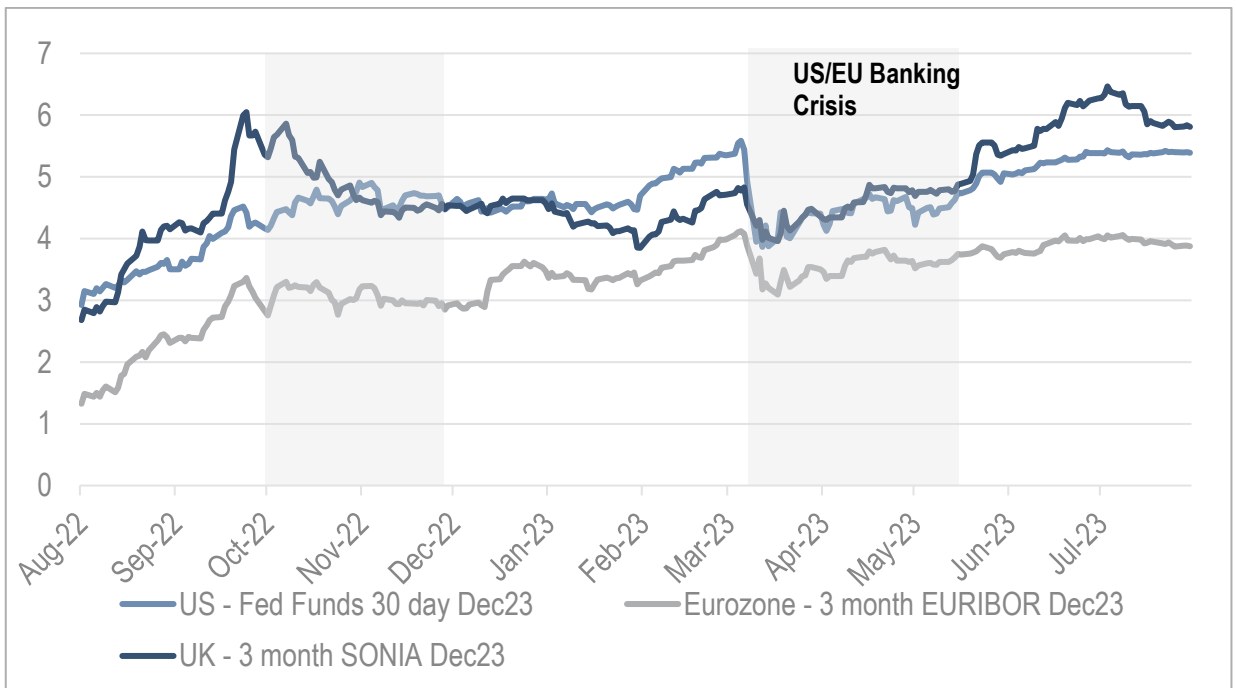


3.3 The short-term outlook has improved but rising rates threaten as we move towards 2024. The US economy has remained resilient while Europe and China disappoint.

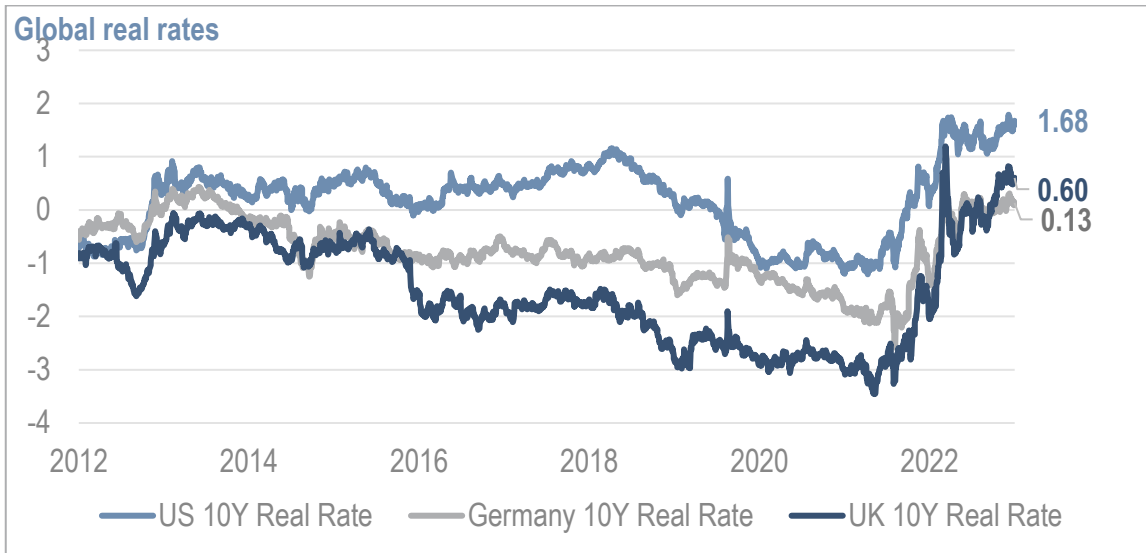
3.4 Inflation has now peaked but a return to central bank targets for core inflation may prove difficult. Headline inflation continues to ease but core inflation remains sticky. As at end of July, core Inflation in the US is 5.5% and 6.9% in the UK.



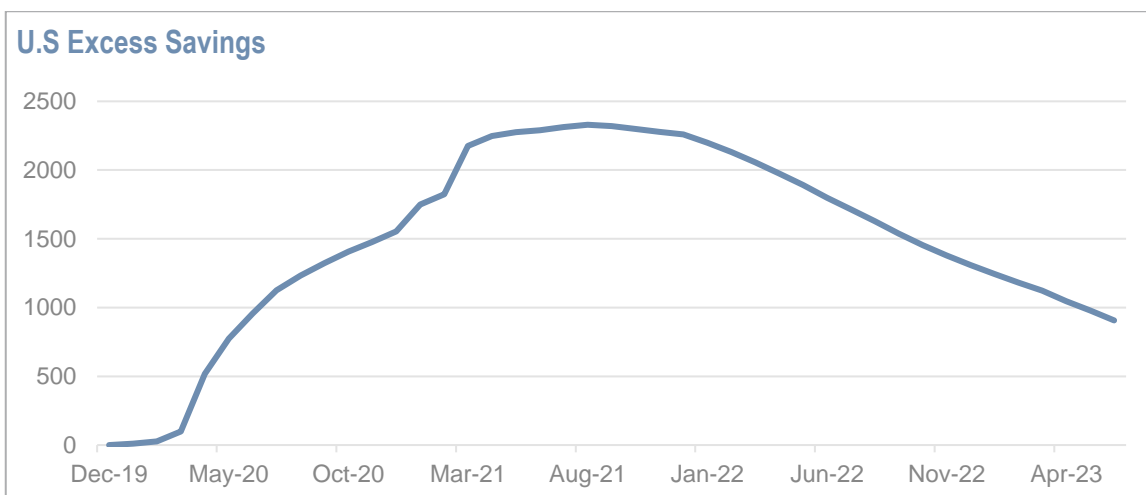
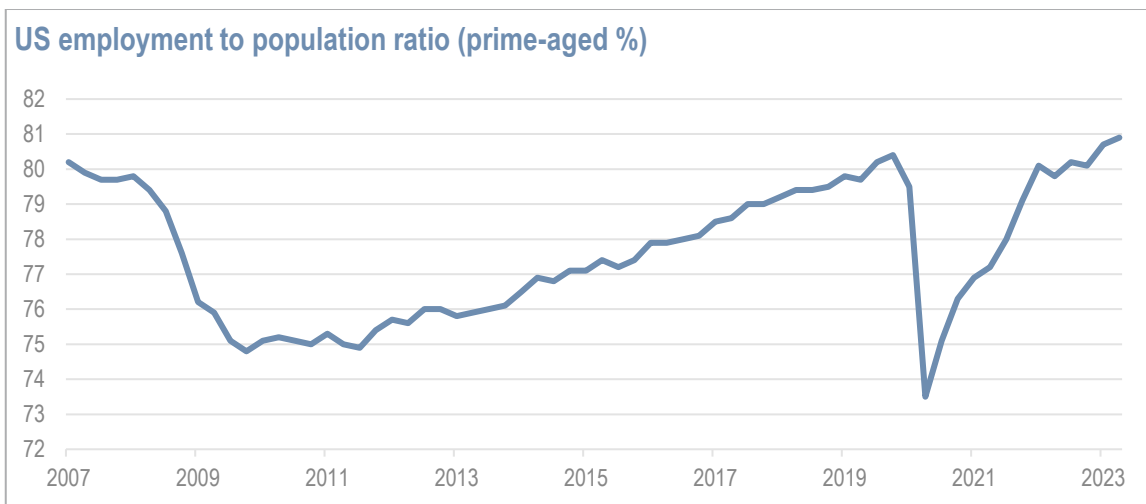
3.5 Resilient growth and sticky inflation force a “higher for longer” reassessment for interest rates. Short term rate expectations for the end of 2023 are 5.75% for the UK, 5.5% for the US and 4% for the eurozone.



3.6 Real rates are now back to previous highs with the UK moving sharply higher.



3.7 The Consumer and US employment has remained very solid year to date. However, there is a notable fall in excess savings and a rise in credit card delinquencies.

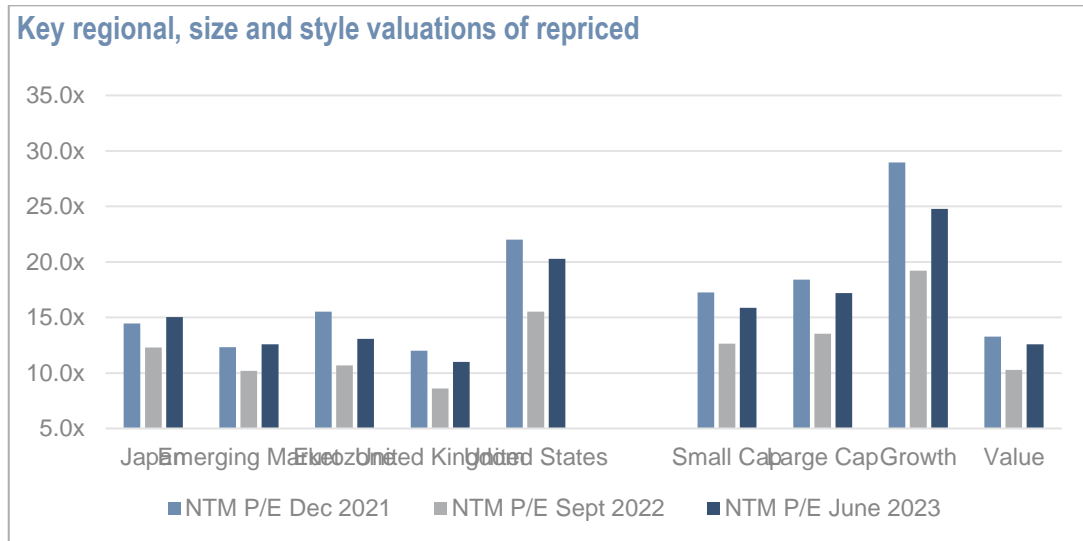


3.8 China economic weakness feeds through into commodities and deflation in industrial goods. The key question here is the level at which authorities start to stimulate the economy aggressively. Key to this is whether a weak China benefits the west in its current state. The focus on China has shifted – it is now no longer a re-opening story, it's all about how lack lustre it is and the pace of its deceleration. The default of Country Garden, one of the larger “more stable” developers, is a shock and a sign of the stress

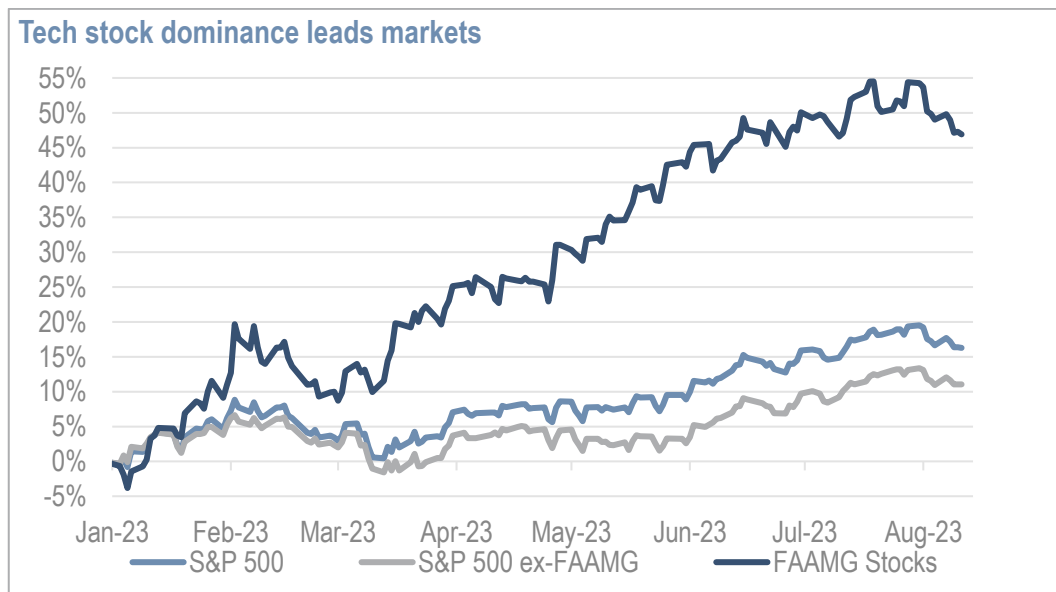
within the system. It is near inevitable that they will need to stimulate the economy. With the state of the balance sheets at the local government level this needs to be done centrally so expect them to roll out the old playbook of lowering reserve requirements for the banks and throwing money at the problem.

#### 4. Valuations

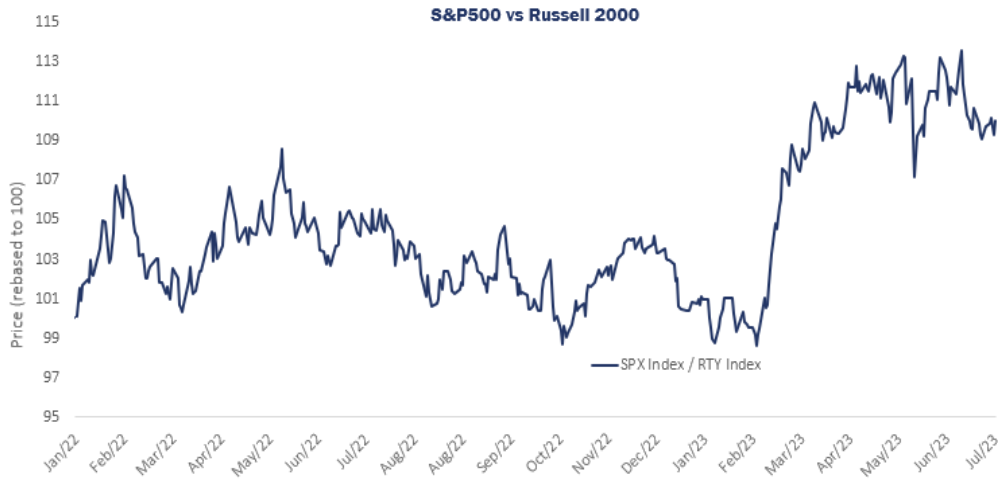
4.1 Equity valuation multiples have bounced after the correction in 2022.



4.2 The US equity market is now more concentrated than at any other time over the last 90 years.



4.3 Mid/small cap stocks are feeling the brunt of the rate increases, the tightening of lending standards and rising wage inflation. The large caps are generally well positioned for high interest rates having strong balance sheets and refinance/locked in lower rates, whilst small/mid-caps are feeling the pressure of higher rates due to their more levered balance sheets. The chart below shows the S&P 500 vs the Russell 2000 with the S&P 500 outperforming by ~10% year to date.

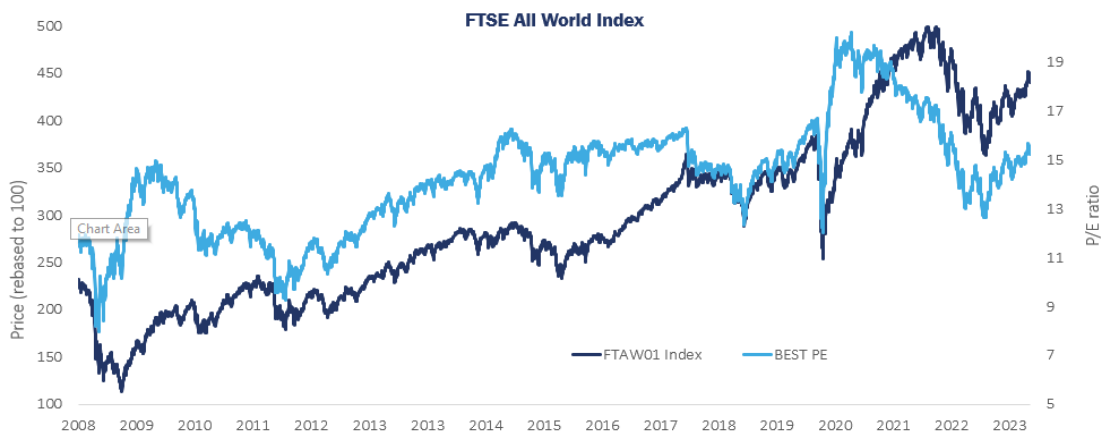


4.4 The chart below does not do it justice, but year to date MSCI China has underperformed the S&P 500 by 18%. It now trades on 10x earnings vs 20x for the S&P, half the multiple.



4.5 On a global basis, world equity markets do not look excessively expensive; 15.5x earnings; but you need to factor in that growth expectations for next year have been high and are moving lower (see below).

**VALUATIONS HAVE STARTED TO MOVE HIGHER**



4.6 From an earnings perspective, everyone has been anticipating the recession, but it hasn't happened, in fact we are seeing earnings move higher. That being said, the expectations for 2024 have been drifting lower as people push out what is seen as the inevitable slow down.

## 5. Fund Performance

5.1 The table below shows performance data for the ACS funds (listed assets) to 30 June 2023 for funds with more than 12 months since inception. Note these returns are annualised. Performance for the private markets assets are given in a later report.

% p.a. Since inception	Target vs. B'Mark	Type	Launch date	Return	B'Mark	Relative to B'Mark	Relative to Target
<b>Equities</b>							
UK Listed Equities	+1%	Internal	Jul-18	4.0%	3.1%	+0.9%	-0.1%
UK Equity Alpha	+2%	External	Dec-18	5.2%	5.8%	-0.6%	-2.6%
Overseas Developed	+1%	Internal	Jul-18	9.1%	7.6%	+1.5%	+0.5%
Global Equity Alpha	+2%	External	Oct-19	9.5%	9.4%	+0.1%	-1.9%
Emerging Market Equities	+1.5%	Hybrid	Oct-18	2.2%	3.9%	-1.6%	-2.9%
<b>Alternatives</b>							
Listed Alternatives	N/A	Internal	Feb-22	-3.6%	4.3%	-7.9%	N/A
<b>Fixed Income</b>							
Sterling Inv Grade Credit	+0.6%	External	Mar-20	-2.4%	-3.6%	+1.2%	+0.6%
Sterling Index Linked Bonds	+0.2%	Internal	Oct-20	-20.6%	-20.9%	+0.3%	+0.1%
Multi Asset Credit Fund	N/A	Hybrid	Nov-21	-4.3%	5.7%	-10.0%	N/A

5.2 **Benchmark Relative Returns:** As can be seen in the table above 5/9 ACS funds are ahead of benchmark since inception. UK Listed Equities, Overseas Developed, Global Equity Alpha, Sterling Investment Grade Credit and Sterling Index Linked Bonds are all ahead of benchmark since inception. UK Equity Alpha, Emerging Markets Equity, Listed Alternatives and Multi-Asset Credit Funds are below benchmark since inception.

5.3 **Target Relative Returns:** Target returns in excess of benchmark are set for each ACS fund. These excess return targets reflect the return we feel is commensurate with the active risk we take. Since inception Overseas Developed Equity, Sterling Index Linked Bonds and Investment Grade Credit are above target. UK Listed Equities is close to its target excess return. UK Equity Alpha, Global Equity Alpha, Emerging Markets Equity and Listed Alternatives are below their target return.

5.4 Shorter term performance (from the start of 2023 to end June) has been good with 8 out of 9 of the funds beating their benchmarks. The performance of our externally managed equity funds has improved significantly in 2023 (UK listed Alpha +2.2% and Global Equity Alpha +1.3% relative to the benchmark year to date). Over this shorter time period, performance relative to a long-term outperformance target becomes less meaningful.

5.5 Emerging Markets Equity relative performance has been positive in 2023, +0.9% versus the benchmark year to date. The fund is split China (external managers) and ex-China Internal. The Internal manager has beaten the benchmark by +3.3% year to date. The domestic China equity markets have been challenging in 2023 and our two managers – UBS and Fountain Cap have lagged their benchmarks.

- 5.6 A new ACS fund – Emerging Markets Equity Alpha (EMEA) was launched in August 2023 with four external managers: two China – Fountain Cap and UBS; and two Ex-China – Ballie Gifford and GSAM. Performance of this fund will be reported to the Joint Committee after its 1 year anniversary.
- 5.7 Credit spreads have been stable year-to-date. Sterling Investment Grade saw solid relative performance from our managers and the fund is above its performance target +1.0% year-to-date. Index linked bonds continue to have headwinds in 2023 but has seen good relative year-to-date performance of +0.1%. The Multi-Asset Credit (MAC) fund has had a better 2023 year to date both absolute (+4.1%) and relative (+0.3%) returns.
- 5.8 The rising/high interest rate environment has been challenging for the Listed Alternatives fund. Based on the output of the annual review we are proposing to shift the portfolio to capture a broader opportunity set including an allocation to liquid investment grade bonds of issuers within the Listed Alternatives universes. We are also looking to improve overall risk balance of the portfolio.

## 6. Looking forward

- 6.1 To this point, high rates have not had a significant impact on economic activity, but now rates have normalised we are likely to see more pressure on risk assets as the opportunity cost of holding cash is low.
- 6.2 The resilience of US profitability and margins may be challenged in Q4 as we see early signs of stress on consumer (upward trend in credit card delinquencies) and some softening in employment data. Moderating inflation will be a positive development for the remainder of 2023 but at the same time earnings are likely to fall.
- 6.3 Equity valuations in the US, whilst Europe and Japan look more attractive on a relative basis.
- 6.4 The main risks from Q4 2023 and beyond are the disappointing slowdown/deflation in China and the possibility that, with tightening credit conditions, the banking crisis from Q1 2023 re-emerges. The geopolitical environment remains a concern and 2024, given the electoral cycle, is likely to be even more challenging.
- 6.5 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 there is any meaningful uplift in defaults as growth slows. We remain constructive on income generating assets from government bonds to credit and liquid alternatives.
- 6.6 Given the very strong performance of tech/growth year to date, the resultant narrowness of the US equity market (see 4.2) and moderating global growth, we believe a bias towards Quality at this point in the cycle is prudent.
- 6.7 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. A higher average inflation environment (above 3%) and low/modest growth is an investment regime that is supportive of portfolios that combine public and private (real assets). 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.

## 7. Author

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8 September 2023

### **Important Information**

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