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BCPP JOINT COMMITTEE

AGENDA

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

Date: **Tuesday, 28 November 2023**

Time: **11:15am-1:30pm**

Membership:

Chair:-	
Cllr Doug McMurdo	Bedfordshire Pension Fund
Vice Chair	
Cllr George Jabbour	North Yorkshire Pension Fund
Membership:-	
Cllr Doug Rathbone	Cumbria Pension Fund
Cllr David Sutton-Lloyd	Durham Pension Fund
Cllr Paul Hopton	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Jayne Dunn	South Yorkshire Pension Fund
Cllr Nick Harrison	Surrey Pension Fund
Cllr Jill Ewan	Teesside 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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PENSIONS PARTNERSHIP

Minutes of the Border to Coast Joint Committee

Thursday 28th September 2023 at 10:15am
Border to Coast Offices, Toronto Square, Leeds, LS1 2HJ

Present Members:	**Chair:** Cllr Doug McMurdo, Bedfordshire Pension Fund **Vice-Chair:** Cllr George Jabbour, North Yorkshire Pension Fund (Elected Under Agenda Item 3) ----- Cllr Giles Archibald, Cumbria Pension Fund (In Place of Cllr Doug Rathbone) Cllr David Sutton-Lloyd, Durham Pension Fund Cllr Paul Hopton, East Riding Pension Fund Cllr Eddie Strengiel, Lincolnshire Pension Fund Cllr Jayne Dunn, South Yorkshire Pension Fund Cllr Nick Harrison, Surrey Pension Fund Cllr Jill Ewan, Teesside Pension Fund Cllr Pat Hay, Tyne & Wear Pension Fund (In Place of Cllr Anne Walsh) Cllr Christopher Kettle, Warwickshire Pension Fund
Scheme Member Representatives:	Nicholas Wirz Lynda Bowen
Fund Officers Statutory Officer Representative(s):	Pam Duke, Cumbria Pension Fund Paul Cooper, Durham Pension Fund Tom Morrison, East Riding & North Yorkshire Pension Funds Julian Neilson, East Riding Jo Kempton, Lincolnshire Pension Fund Sharon Smith, South Yorkshire Pension Fund Neil Mason, Surrey Pension Fund Nick Orton, Teesside Pension Fund Paul McCann, Tyne & Wear Pension Fund Andy Felton, Warwickshire Pension Fund Chris Norton, Warwickshire Pension Fund
Partner Fund Nominated Non Executive Directors	Cllr David Coupe Cllr John Holtby
Border To Coast Representatives:	Rachel Elwell – Chief Executive Officer Joe McDonnell – Chief Investment Officer (Items 7 onwards) Chris Hitchen – Chair Mark Lyon – Deputy Chief Investment Officer (Items 9 onwards) Milo Kerr - Head of Customer Relationship Management

Graham Long – Head of External Management (Item 13)
Ewan McCulloch – Chief Stakeholder Officer
Fiona Miller – Deputy Chief Executive Officer
Jane Firth (Item 6)

Apologies: Cllr Doug Rathbone, Cumbria Pension Fund
Cllr Anne Walsh, Tyne & Wear Pension Fund

1 APOLOGIES/DECLARATIONS OF INTEREST

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

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

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

2 MINUTES OF THE MEETING HELD ON 13 JUNE 2023

The minutes were received, and members asked to approve.

RESOLVED – The minutes of the meeting held on 13 June 2023 be agreed as a true record.

3 ELECTION OF VICE-CHAIR

A report was submitted detailing the election of the Vice Chair. Statements were submitted from Cllr Jabbour and Cllr Kettle, and both asked to present a three-minute statement to outline their submission, followed by a sealed vote.

RESOLVED

- To agree the appointment of Cllr Jabbour as Vice Chair.

4 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.

5 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 2023. To date £29,700 of this relates to the legal costs for the review of the Border to Coast Global Real Estate Proposition documentation.

It was noted that, the 2023/24 Budget is intended to cover costs incurred by the Joint Committee and the Partner Funds, including the secretarial services to convene, and run meetings, legal work to review documentation associated with investment propositions, legal work to review the shareholder agreement following proposed changes to the funding model, and travel and subsistence of scheme members representatives on the Joint Committee.

It was noted expenditure to date is within the Joint Committee Budget.

RESOLVED – To note the contents of the report.

6 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 update members on engagement activity. As part of the Low Carbon Transition engagement theme, and the focus on the oil and gas sector and high carbon emitting companies, there has been increased engagement in this area. 29 priority companies were identified for pre-AGM engagement where advice was given of our voting intentions and provided the rationale.

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 initially identified and held by Border to Coast now considered not compliant. Engagement will continue with this company ahead of its AGM in April 2024.

Border to Coast is a supporter of a Just Transition and has recently joined the Financing a Just Transition Alliance co-ordinated by the London School of Economics Grantham Institute, which includes a collaboration with RLAM to engage with UK banks. Activity to pilot engagement with an emerging markets energy utility company is also underway.

Members were also updated on the Responsible Investment strategy. Engagement continues with the wider industry on systemic issues and Border to Coast has responded to the FCA's consultation on the Primary Markets Effectiveness Review, supporting the Investment Association's response and highlighted three areas of concern: the removal of the vote on significant transactions; the proposed changes on related party transactions; and the proposed changes to dual class share structures.

Members discussed the challenges facing the water industry, including the need for investment to address the sustainability of the system. Cllr McMurdo agreed to circulate a recent Local Authority Pension Fund Forum report on Place Based Funding with respect to water companies to members.

Cllr Archibald raised his personal concerns around the transition plans within the oil and gas sectors, Cllr McMurdo agreed to discuss the matter with Cllr Archibald and other individuals at his Fund as necessary in a separate meeting to be scheduled.

RESOLVED: To note the contents of the report. Cllr McMurdo to circulate a LAPFF report on place-based funding with respect to water companies to members.

Cllr McMurdo to schedule a meeting with Cllr Archibald to discuss the oil and gas sectors.

7 MARKET REVIEW

Joe McDonnell presented a report reviewing market conditions and giving a high-level view of the performance of the various investment propositions.
Risk assets have continued to perform well year-to-date. The short-term outlook has improved but rising rates threaten growth as we move towards 2024. 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.

Fund performance updates were provided:

- Benchmark Relative Returns: 5/9 ACS funds are ahead of benchmark since inception.
- Target Relative Returns: Target returns relative to the benchmark is set for each ACS fund. These excess return targets reflect the return which is commensurate with the active risk taken. 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.
- A new ACS fund – Emerging Markets Equity Alpha (EMEA) was launched in August. Four external managers have been appointed: 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.
- The rising/high interest rate environment has been challenging for the Listed Alternatives fund. Based on the output of the annual review it is proposed 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. Border to Coast is also looking to improve overall risk balance of the portfolio.

RESOLVED – To note the contents of the report.

8 LGPS CONSULTATION

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

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

Ewan McCulloch presented the proposed response to the Government pooling consultation on the future of pooling.

It was felt that a joint response reflected the ethos of the Border to Coast pool, with the ultimate objective of influencing the outcome of Government policy to enable Partner Funds to carry out their primary objective of paying pensions to LGPS members at a sustainable and affordable cost.

RESOLVED: Members approved the proposed response to the Government Pooling consultation on the future pooling and all eleven funds signed the response.

9 ANNUAL REVIEW OF UK LISTED AND OVERSEAS DEVELOPED EQUITIES

Mark Lyon presented the highlights of the annual review.

- The performance of the Sub-funds is broadly in line with the target since inception and have generated strong risk-adjusted returns at a low cost.
- Existing, and anticipated future, resources are sufficient to manage the Sub-funds and aid longer term succession planning.
- The portfolio structure is appropriate and although the carbon profile is above the short-term target; the Company remains comfortable with the long-term trajectory and no remedial action is required at the current time.
- The Sub-funds are considered to continue to meet customer requirements and are sustainable over the long term.
- No substantive changes to the Sub-funds are considered necessary following the annual review.

Following discussion it was:

RESOLVED – To note the contents of the report

10 ANNUAL REVIEW OF ALTERNATIVES

Mark Lyon introduced a report presenting the annual review of the alternatives. Key points raised:

- Capital commitments from Partner Funds of £12bn v. £5bn in the original business case, with capital deployed in line with expected timeframes and within risk parameters.
- Delivered substantial cost savings (estimated at ~£38m p.a. equivalent to 40bps), developed key industry partnerships, and improved access to investments for Partner Funds.
- Initial performance has been encouraging for all asset classes, although it is early in the programme life.
- Future product developments are currently in the design stage and will be progressed further if considered appropriate.

Following discussion, it was:

RESOLVED – To note the contents of the report.

11 ANNUAL REVIEW OF LISTED ALTERNATIVES AND PROPOSED CHANGES

Mark Lyon presented the annual review of the Listed Alternatives Sub-fund. Performance has been weak since inception which is due to an inherent mismatch of assets against the benchmark. There is seen to be an opportunity to adjust the asset exposure and take advantage of the change in the market conditions through bond yield and interest rates increasing, to invest in bond and debt within the strategy to reduce the equity risk long term.

Amendments will be required to the investment process to cover due diligence of fixed income securities as well as an expanded opportunity set. These are incremental, rather than fundamental, changes. There will need to be EGM approval for the changes to take place from the 5 Partner Funds that are invested in the sub-fund.

RESOLVED: That the report is noted, that there will be an EGM for existing investors to approve the changes to the Prospectus.

12 CEO REPORT

The Company's CEO submitted a report updating the Committee on activity across the whole range of the Company's activity.

The Joint Committee is asked to support the extension of the remit of the 2030 Emerging Strategy project to cover the next phase of its development prior to presentation to the Board and Partner Funds. The project's membership will also be reviewed.

RESOLVED: To note the contents of the report and agree the extension of the remit of the 2030 working group.

13 INVESTMENT REVIEW QUARTER ENDED 30 JUNE 2023

Graham Long and Mark Lyon introduced a review of the performance of the various investment propositions over the most recent quarter. Members were advised that detailed reporting is provided to the Operations Officers Group and further information can be obtained by Officers from the data room.

RESOLVED – To note the contents of the report.

14 STANDING ITEM - UPDATE ON EMERGING MATTERS

Fiona Miller informed members that George Graham – South Yorkshire Pensions Fund – and herself work in collaboration with the Scheme Advisory Board and have the access in that arena to raise any concerns.

CHAIR

AGENDA ITEM 3

Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: 28th November 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 £30,395. 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

Further Information and Background Documents:

N/A

PENSIONS PARTNERSHIP

Border to Coast Joint Committee

Date of Meeting: 28th November 2023

Report Title: Joint Committee Effectiveness Review

Report Author: George Graham (Director – SYPA)

1.0 Executive Summary:

1.1 This report proposes that in line with best practice in corporate governance the Joint Committee conduct a review of its effectiveness.

2.0 Recommendation:

2.1 It is recommended that the Joint Committee approve the undertaking of an effectiveness review before the end of the current municipal year.

3.0 Background and Options

3.1 The Joint Committee has now been operating formally since 2017 during which time the Partnership has evolved significantly, and the operating company has grown from nothing to the largest asset manager in the UK outside London and Edinburgh. In the last year the Partnership has reviewed and updated its governance arrangements to reflect the steady state operation that has now been achieved. This review can be regarded as looking at process. It is also important that we examine practice or the way we do things. The Officer Operations Group has already begun to examine how it works together to achieve the objectives of the Partnership and it seems appropriate alongside the work on future strategy for the Partnership as a whole now for the Joint Committee to consider how it operates and whether this is delivering what is required for the Partnership.

3.2 The vehicle for such an exercise is an effectiveness review, a process which members who sit on Audit Committees and corporate boards may be familiar with. The review would involve a workshop for members of the Joint Committee to address a number of questions which might include:

- Are we spending time on the issues that will deliver most long-term benefit to the Partnership?
- Are we providing effective oversight to the operating company?
- Are we effectively holding each other to account?
- Are we receiving the right information to perform the tasks we need to undertake?

3.3 Addressing these questions may lead the Committee to question whether its current remit is appropriate, and the answers will also need to be looked at alongside work being conducted by the Officer Operations Group looking at the adoption of more common approaches in areas such as oversight.

3.3 It is important that this is a member driven exercise and that the conclusions and any proposals for change are created and owned by the members of the Committee so it will be appropriate to use an external facilitator for the workshop rather than this being done by officers or staff from the company who would inevitably bring their own biases into the process.

3.4 If Members are content with the idea of conducting a review along these lines it is suggested that officers try to identify a suitable time for holding the workshop before the end of the Municipal Year to ensure that members involved have at least had the benefit of nearly 12 months of membership.

3.5 Conducting periodic effectiveness reviews of this type is an important aspect of good corporate governance which the Committee supports as it applies to investee organisations and it is appropriate for the Committee to subject itself to the same rigour as it applies to investee companies.

4.0 Conclusion

4.1 Given the point of development the Partnership has reached it is appropriate that the Committee undertake an effectiveness review as suggested in the body of this report.

Report Author:

George Graham – Director - South Yorkshire Pensions Authority.

ggraham@sypa.org.uk

01226 666439

AGENDA ITEM 5

Border to Coast Joint Committee

Date of Meeting: 28 November 2023

Report Title: Responsible Investment Policies Annual Review

Report Sponsor: CIO – Joe McDonnell

1 Executive Summary

1.1 The Responsible Investment Policy (RI) and Corporate Governance and Voting Guidelines (Voting Guidelines) were developed in 2017 in conjunction with the Partner Funds. A standalone Climate Change Policy was developed and published in 2021. All three policies are reviewed annually and updated as necessary through the appropriate governance channels. The process for review includes the participation of all the Partner Funds; this is to ensure that we have a strong, unified voice.

1.2 All three policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles and to reflect changes in market best practice. Policies have also been reviewed against asset managers and asset owners seen to be RI leaders and the other seven LGPS pools.

1.3 Responsible Investment workshops are held at regular intervals for the Partner Fund Officers and the Joint Committee to discuss RI topics and issues that may be included in the policy review.

1.4 The annual review and governance processes needs to be completed, with policies approved and ready to be implemented, ahead of the 2024 proxy voting season. Partner Fund Officers have provided feedback on the proposed revisions and suggested amendments. After the Joint Committee, they will be shared with Partner Funds for review at Pension Committee meetings.

2 Recommendation

2.1 That the Joint Committee reviews and comments on the proposed revisions to the RI Policy (Appendix 1), Corporate Governance & Voting Guidelines (Appendix 2), and Climate Change Policy (Appendix 3).

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

3 Annual review process

3.1 The three RI-related policies are reviewed annually or when material changes need to be made. The annual review process commenced in July to ensure any revisions to the policies are in place ahead of the 2024 proxy voting season.

3.2 The current policies were evaluated by Robeco, our voting and engagement provider, considering the International Corporate Governance Network (ICGN) Global Governance Principles and the changing regulatory environment. The policies have also been reviewed against best-in-class asset managers, and asset owners considered to be RI leaders to determine how best practice has developed. All seven other pools climate change policies were also reviewed.

3.3 Regular RI workshops have been held during the year for the Officers Operation Group and the Joint Committee. Areas covered included the RI strategy, the regulatory landscapes, thematic engagement, the voting process and climate-related voting. A separate working group has been set up with Partner Funds' officers covering TCFD reporting.

3.4 Partner Funds were asked for input early in the review process and a common area of interest was the reduction of revenue thresholds for thermal coal and oil sands production. A workshop was held with the Officer Operation Group of the Partner Funds on 3 October, and the proposed revised Policies were shared with officers and feedback received from two Partner Funds. This was requesting the impact on the investible universe of reducing revenue threshold levels and broadening the controversial weapons definition, the voting implications of raising the threshold for gender diversity for UK companies, and wording on scenario analysis.

3.5 The approach to exclusions was reviewed as part of the policies review process. More detail is included at section 4.

3.6 These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the draft policies.

3.7 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2024 proxy voting season. After considering feedback from the Officer Operation Group and the Investment Committee, the revised policies were approved by the Board on 14th November.

3.8 We have asked Partner Funds to complete their review by the end of 2023 so that we are able to carry out this implementation and disclose our voting intentions to companies prior to the peak season.

4 RI Policy – key changes

4.1 This year's RI Policy review reflects suggested improvements from Robeco and work undertaken during the year; this includes on our Net Zero commitment. All changes are shown as track changes in the attached Appendix 1.

4.2 Amendments have been made to all the sections for integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, the impact of our Net Zero commitment and progress made on Real Estate ahead of launch later this year.

4.3 Last year we included some specific wording on human rights as this is an area gaining more prominence for investors. This has been expanded to include how we engage.

4.4 An area continuing to gain focus from an investment perspective is biodiversity. We are currently engaging on biodiversity issues through our support of the Investor Policy Dialogue on Deforestation Initiative (IPDD), through Robeco and as part of our Waste and Water theme and our engagement on climate change. Therefore, a high-level overview has been inserted into the RI Policy which covers our approach to engagement.

4.5 As part of this year's annual review the approach to exclusions has been revisited. When considering any exclusions, we consider the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour. We also assess the impact on the investible universe and the benchmarks our portfolios are measured against.

4.6 As part of this year's annual RI policies review process the approach has been revisited, this included the review of the policies and approach of asset managers and asset owners seen as leaders in this area. Revenue thresholds for thermal coal and oil sands production have been reviewed with analysis conducted across equity and fixed income funds, associated benchmarks and the MSCI Universe to identify potential companies that managers may also invest in off benchmark.

4.7 An update on exclusions was presented to the August Investment Committee. Following an in-depth discussion, and recognising to support our Net Zero goal we need to send a clear signal on our intentions, the recommendation was to reduce the exclusion thresholds to 25% for thermal coal and oil sand production (aligned with illiquid assets).

4.8 An exclusion related to thermal coal power generation has been introduced with a revenue threshold of 50% for developed markets. A higher threshold of 70% has been introduced for emerging markets this is to reflect our support of a just transition and recognition that countries have differing transition timelines and dependencies on coal and the potential impact on energy availability and economic development.

4.9 The exclusion for controversial weapons has been broadened to cover landmines, biological and chemical weapons. This covers international treaties and conventions relating to controversial weapons that the UK has either ratified or is a state party to.

4.10 The exclusions in place take into account material financial factors and are limited to areas where it is important to give explicit indications to the investment decision makers.

4.11 The changes to the exclusions approach are not expected to lead to any significant changes to our existing investment portfolios as these risks are already reflected in the investment decision making process. Partner Funds will be able to assess this through performance versus respective benchmarks for the investment funds. This is an area we will continue to engage with Partner Funds as to how this develops over time.

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

Section	Page	Type of Change	Rationale
2. What is responsible investment	3	Addition	RI approach potential to add value (reflecting our Chair's comments).
5. Integrating RI into investment decisions	4 4 4	Addition Addition Addition	Add just transition to the table under social issues. Additional text on human rights and engagement New text on biodiversity as an investment risk and how we engage.
5.1 Listed equities	5	Addition	More detail on integration process.
5.2 Private markets	5/6	Addition	Additional information on annual questionnaire and involvement in industry initiatives.
5.3 Fixed income	6	Amendment	Moved text on engagement.
5.4 Real estate	6/7	Amendment	Updated for progress made ahead of launch.
5.5 External manager selection	7	Addition	Update on engagement to support net zero; PRI assessment considered in selection and monitoring.
5.6 Climate change	7/8 8	Amendment Addition	Amendment to wording on a just transition and expectations of companies. Additional wording on Net Zero and stewardship.
6. Stewardship	8	Amendment	Inserted 'where appropriate' regarding litigation.
6.2 Engagement	11	Amendment	Engagement with wider industry to create stable environment.
6.2.2 Escalation	12	Addition	Extra tools as part of escalation.
6.2.3 Exclusions	12/13	Amendments and addition	Revenue thresholds reduced for thermal coal and oil sands. Controversial weapons exclusions broadened. New exclusion for thermal coal power generation.
9. Training and assistance	14	Addition	Included wider colleagues.

4.13 The policies were presented to the Board on 14th November and the revisions approved. There is then a period where Partner Funds take the revised policies to their committees to begin their internal alignment process. The revised policies will be effective from 1st January 2024.

5 Voting Guidelines – key changes

5.1 The Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2023 have also been used in the review process. There are several minor amendments and proposed additions covering diversity and climate change. All changes are shown as track changes in the attached Appendix 2.

5.2 Our voting stance in relation to diversity representation at board level, for both gender and ethnicity, has been strengthened this year. This is to reflect the FCA's listing rules and also expectations of FTSE 250 companies to be meeting the Parker Review recommendations.

5.3 We have further strengthened the approach to climate-related voting and will now include a fifth Climate Action 100+ (CA100+) Net Zero Benchmark indicator covering a company's decarbonisation strategy. We are also adding the Urgewald Global Coal Exit List to the industry benchmarks (CA100+, TPI) used to assess whether companies are making sufficient progress.

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

Section	Page	Type of Change	Rationale
Diversity	5	Amendment Addition	Expectations of UK companies on board gender diversity. FTSE 250 on racial diversity and US companies.
Audit	9	Addition	Plans to retender.
Shareholder proposals	12	Addition	General stance on proposals aligned with Paris Agreement.
Climate change	13	Addition Addition Amendment Addition	5th CA100+ Net Zero Benchmark indicator added. Adding Urgewald Global Coal Exit List as industry benchmark tool. Caveat around TPI scoring and data. Stance on Say on Climate items not aligned with Paris Agreement.

6 Climate Change Policy – key changes

6.1 The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. The climate change approaches of the other seven LGPS pools have also been reviewed.

6.2 The main changes reflect the work undertaken to support our Net Zero commitment and are detailed below. All changes are shown as track changes in the draft Policy attached as Appendix 3.

6.3 Additional wording has been added about why climate change is important to us as an investor. This has been taken from the Climate Change Report and includes reference to the role we need to play through engagement and the investment opportunities for investors and how this will support our Partner Funds.

6.4 Reference to our Net Zero targets has been included in the 'Our ambition – Net Zero section' with detail on the specific targets for carbon reduction alignment and engagement. This has been moved from a later section of the policy.

6.5 A paragraph has been included on how we have considered the different climate scenarios available, those which we will be using and the limitations and associated risks of climate modelling.

6.6 Our approach to exclusions has been updated in line with the RI Policy with the lower revenue thresholds for public market companies for thermal coal and oils sands production (now aligned with illiquid assets) and the introduction of an exclusion for thermal coal power generation.

6.7 Additional wording has been added on the importance of engagement in meeting our Net Zero goal and the targets we have set. The focus actions for the next and subsequent years have been updated which includes our voting approach to 'Say on Climate' resolutions and climate-related shareholder resolutions.

6.8 The amendments to the Climate Change Policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
2.2 Why climate change is important to us	3	Addition Amendment	Additional wording taken from the Climate Change Report – importance, our role, and opportunities. Revision to just transition wording.
3.1 Our ambition – Net zero	5/6	Addition	Inserted reference to our Net Zero targets – wording moved from 5.2
3.3 Division of roles and responsibilities	6	Addition	Wording in line with Climate Change Report.
4.1 How we identify climate-related risks	7	Revision	Wording in line with Climate Change Report.
4.2 How we assess climate-related risks and opportunities	8	Addition	Update on climate change scenario analysis. – in line with Climate Change Report.

Section	Page	Type of Change	Rationale
5.1 Our approach to investing	8/9	Addition Amendment Addition	Additional wording on consideration when excluding. Revise exclusion threshold for thermal coal and oil sands. New exclusion on thermal coal power generation.
5.2 Acting within different asset classes	9	Amendment Addition	Paragraph moved to 3.1. Approach for Real Estate.
6.1 Our approach to engagement	10/11	Amendment Addition Amendment / addition	Inserted 'where considered to be appropriate' regarding litigation. Reference to engagement and targets. Focus areas including voting and engagement.
7. Disclosures and reporting	12	Amendment	Revised wording on transparency and reporting.

7 Financial

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

8 Risks

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

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

9 Conclusion

9.1 The Committee is asked to consider the recommendations at Section 2.

10 Author

Jane Firth, Head of Responsible Investment
15th November 2023

11 Supporting Documentation

Appendix 1: Draft Border to Coast Responsible Investment Policy
Appendix 2: Draft Border to Coast Corporate Governance & Voting Guidelines
Appendix 3: Draft Border to Coast Climate Change Policy

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

Responsible Investment Policy

Border to Coast Pensions Partnership

January 2024~~3~~

Responsible Investment Policy

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

1. Introduction

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

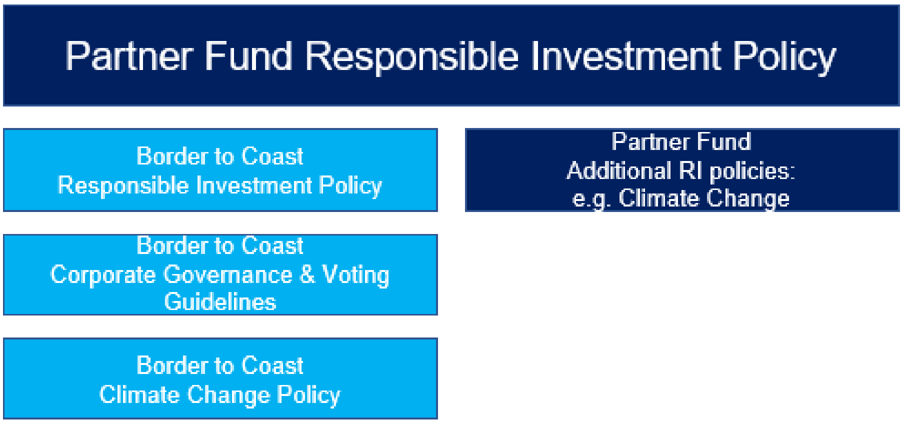
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and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

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

1.1. Policy framework

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

RI Policy Framework



2. What is responsible investment?

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

Investment stewardship includes active ownership;~~,~~ using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance. We believe that our responsible investment approach and associated activities help identify and manage non-financial risks and so should add value to our investment portfolios over the long-term.

3. Governance and Implementation

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

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

4. Skills and competency

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

5. Integrating RI into investment decisions

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

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues are considered and monitored in relation to all asset classes. The CIO is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards Pay conditions (e.g. living wage in UK) Just transition	Board independence Diversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. We engage with companies on human rights as part of our social priority engagement theme, engaging on modern slavery and labour practices and human rights due diligence where companies operate in high-risk areas. We have incorporated considerations into how we exercise our votes at company meetings.

Biodiversity loss is increasingly seen as posing a risk to financial markets. Over half of global GDP is dependent on nature-based services[1], and looking ten years out, six of the top ten global risks identified by the World Economic Forum are climate and environmental related. We currently address biodiversity issues through engagement with companies and governments on issues including deforestation, natural resource management and climate change.

Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

[1] World Economic Forum

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

5.1. Listed equities (Internally managed)

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

We use third-party ESG data and research from specialist providers ~~is used~~ alongside general stock and sector research. ~~; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection.~~ ESG factors are incorporated into analysis and research templates as part of the decision-making process. We consider the financial materiality of ESG factors, which will vary depending on the geography, industry and individual company. For companies subject to very severe controversies as defined by our third-party data provider, UN Global Compact breaches, ~~or~~ with elevated ESG risk, or subject to securities litigation, a more detailed research and climate risk template is completed which is also used to inform engagement and voting. The RI team as subject matter experts support the portfolio managers, and t~~T~~he Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement are also part of the investment process with information from engagement meetings shared with the team to increase and maintain knowledge, and portfolio managers involved in engagement meetings and the voting decision making process.~~should not be detached from the investment process with; therefore, information from engagement meetings is shared with the team to increase and maintain knowledge, and portfolio managers are involved engagement meetings and in the voting process~~.

5.2. Private markets

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

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the ~~Head of~~ RI team as required.
- Managers are requested to complete an annual monitoring questionnaire which contains both binary and qualitative questions, enabling us to monitor several key

performance indicators, including RI policies, people, and processes, promoting RI, ~~and~~ RI-specific reporting and progress on measuring and reporting GHG emission~~.~~

- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.
- We engage in a range of industry initiatives which seek to improve transparency and disclosure of ESG and carbon data within private markets.

5.3. Fixed income

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

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

The approach to engagement can also differ as engagement with sovereigns is much more difficult than with companies.

5.4. Real Estate

Border to Coast is preparing to launch funds to make Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process is~~will be~~ an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies.

A Responsible Investment framework has been developed for Real Estate to ensure the integration of ESG factors throughout the investment process. This covers the stages of selection, appointment and monitoring and a feedback loop to report performance and review processes. It includes pre-investment, post-acquisition and post-investment phases. An ESG scorecard will be developed tailored to the direct or indirect property fund, monitoring k~~K~~ey performance indicators such as~~will include~~ energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). ~~Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which includes procuring a third-party manager and working with them to develop our approach~~

~~to managing ESG risks.~~ For direct real estate, the RI Policy will be implemented through ESG strategies embedded into the asset management plans of individual ~~p~~properties; this is to ensure a perpetual cycle of review and improvement against measurable standards.

5.5. External manager selection

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

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

The monitoring of appointed managers also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are expected to be signatories or comply with international standards applicable to their geographical location. We encourage managers to become signatories to the UN-supported Principles for Responsible Investment[2] ('PRI') and will consider the PRI assessment results in the selection and monitoring of managers. We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

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

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves minimising and managing social risks, seeking

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

to maximise~~ing the~~ social opportunities, and a focus on the place based economic impacts~~opportunities and minimising and managing challenges of a net zero~~ of the transition to net zero. We expect companies to consider this social dimension in decarbonisation strategies and engage with companies, directly and through collaboration with other investors. ~~the potential stakeholder risks associated with decarbonisation~~.

We have committed to a net zero carbon emissions target by 2050, or sooner for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC and have developed an implementation plan which sets out the four pillars of our approach.

Stewardship is an important element of meeting this goal and we engage with companies on climate-related risks and opportunities and use our voting rights to hold boards to account.

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

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation, where appropriate. As a responsible shareholder, we are committed to being a signatory to the ~~2020~~ UK Stewardship Code[3] and were accepted as a signatory in March 2022. ~~I~~We are also a signatory to the PRI.

6.1. Voting

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

6.1.1. Use of proxy advisors

Border to Coast use a Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by the Voting & Engagement provider. The proxy voting advisor provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A team of dedicated voting analysts analyse the merit of

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

each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

The Voting and Engagement provider evaluates its proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of the control framework and is externally assured. Border to Coast also monitors the services provided monthly, with a six monthly and full annual review.

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

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

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

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

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

6.2. Engagement

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

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

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

- Border to Coast and all eleven Partner Funds are members of the Local Authority Pension Fund Forum ('LAPFF'). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.
- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, Border to Coast use an external Voting and Engagement service provider. We provide input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate in some of the engagements undertaken on our behalf.
- Engagement takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these cover environmental, social, and governance issues as well as UN Global Compact[4] breaches or OECD Guidelines[5] for Multinational Enterprises breaches.
- We expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policies.

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

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

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on the validation of a potential breach, the severity of the breach and the degree ~~of~~ to which

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

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

management can be held accountable for the issue. For all engagements, SMART[6] engagement objectives are defined.

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

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

As a responsible investor we also engage with regulators, public policy makers, and other financial market participants on systemic risks to help create a stable environment to enhance long-term returns.

6.2.1. Engagement themes

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

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

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

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

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought

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

- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

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

6.2.3 Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

Thermal coal and oil sands:

Using these criteria, ~~and~~ due to the potential for stranded assets and the significant carbon emissions of certain fossil fuels, we will not invest in public market companies or illiquid assets with more than 25~~70~~% of revenues derived from thermal coal and oil sands, unless there are exceptional circumstances. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time. ~~For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.~~

~~We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.~~

We will exclude public market companies in developed markets with >50% revenue derived from thermal coal power generation. For companies in emerging markets the revenue threshold is >70%, this is to reflect our support of a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. We will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

~~We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.~~ Any public market companies excluded will be reviewed with business strategies and transition plans assessed for potential reinstatement.

~~For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.~~

Controversial weapons~~Cluster munitions~~:

Certain weapons are considered to be unacceptable as they may~~unacceptable under international conventions as they may~~ have an indiscriminate and disproportional impact on civilians during and after military conflicts. Several ~~I~~International Conventions and Treaties have been developed intended to prohibit or limit their use. ~~n addition, we~~ We will therefore not invest in companies contravening the ~~-~~ Anti-Personnel Landmines Treaty (1997), Chemical Weapons Convention (1997), the Biological Weapons Convention (1975), and the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and~~-~~ in some countries legislation also prohibits the direct and indirect financing of these weapons. ~~many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention.~~ Therefore, as a responsible investor we will not invest in the following, where companies are contravening the above treaties and conventions:

- Companies where there is evidence of manufacturing ~~cluster munition~~ such whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use of such weapons~~in cluster munitions~~.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

6.3. Due diligence and monitoring procedure

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

The Voting and Engagement provider also undertakes verification of its stewardship activities and the external auditor audits stewardship controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

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

8. Communication and reporting

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

We also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

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

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

10. Conflicts of interest

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

Appendix A: Third-party Providers

Voting and Engagement provider	Robeco Institutional Asset Management BV	June 2018 - Present
Proxy advisor	Glass Lewis	June 2018 - Present

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Appendix B

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

January 2024~~3~~

1. Introduction

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

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

2. Voting procedure

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

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

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

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

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

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

3. Voting Guidelines

Company Boards

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

Composition and independence

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

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

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

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

- Representing a significant shareholder.
- Serving on the board for over nine years.

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

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

Leadership

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

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair’s performance. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

Non-executive Directors

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

Diversity

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

We support the government-backed ~~Davies report, Hampton Alexander~~ FTSE Women Leaders Review and Parker R~~r~~eview~~s,~~ which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and in leadership positions.~~senior management.~~ The Financial Conduct Authority (FCA) has also set targets on diversity for certain companies for boards and senior board positions. Therefore, in the UK ~~developed markets without relevant legal requirements,~~ we expect boards to be composed of at least 40~~33~~% female directors. For developed markets without legal requirements the threshold will be 33%. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, ~~we expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024.~~ w~~W~~e will vote against the C~~c~~hair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, and from 2024, we will also vote against the Chair of the nomination committee at FTSE 250 companies unless there are mitigating circumstances or plans to address this have been disclosed.~~-~~ In the US we will generally vote against the nomination committee chair at Russel 1000 companies that fail to disclose sufficient racial and ethnic board demographic information.

Succession planning

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

Directors’ availability and attendance

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

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

Re-election

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

Board evaluation

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

Stakeholder engagement

Companies need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

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

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

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

Directors' remuneration

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

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

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

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

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

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

- **Annual bonus**

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

- **Long-term incentives**

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

  Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

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

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

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

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

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

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

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

Audit

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

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported <u>unless there are plans in place to address this.</u>

~~.~~ For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

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

Political donations

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

Lobbying

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

Shareholder rights

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

- **Dividends**

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

- **Voting rights**

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

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

Share Repurchases

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

Memorandum and Articles of Association

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

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement.

Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

Virtual Shareholder General Meetings

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

Shareholder Proposals

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

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

We will generally vote in favour of shareholder resolutions that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.

Human rights

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI), ~~and~~ the Climate Action 100+ (CA100+) Net Zero Benchmark and the Urgewald Global Coal Exit List. We use TPI scores and~~We~~ will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower~~ by the TPI~~, and~~. In addition, we will vote against the Chair~~ for Oil and Gas companies scoring 3 or lower unless more up to date information is available.~~.~~ Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition,~~ and~~ short, medium and long-term emission reduction targets, and decarbonisation strategy, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change and not covered by the industry benchmarks.

Where management put forward a 'Say on Climate' resolution, we will vote against the agenda item if, following our analysis, we believe it is not aligned with the Paris Agreement.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, in the case where we have significant concerns regarding the bank's transition plans to net zero. ~~where a company materially fails the first four indicators of the framework.~~

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

Investment trusts

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

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

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

PLY59-I-B
Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: January ~~2023~~2024

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

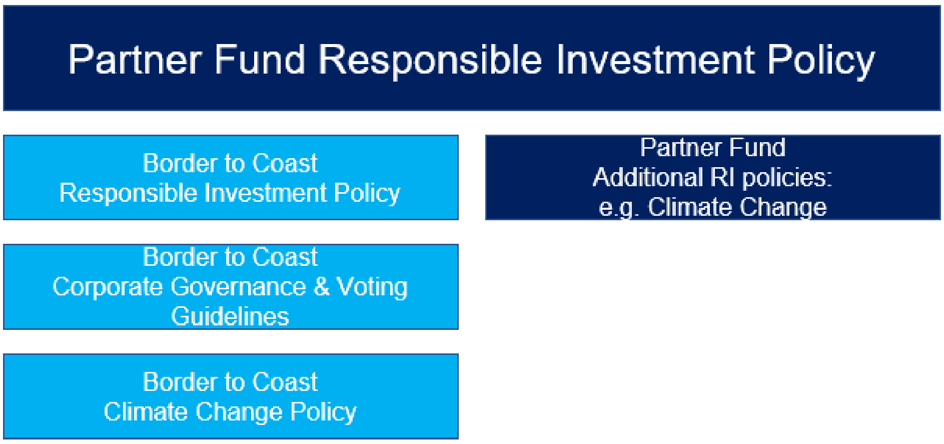
1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. This changes the world in which we live, but also the world in which we invest.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, “Global warming of 1.5ºC”[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require “rapid and far-reaching” transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach ‘net zero’ around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

As a long-term and responsible investor, we have a duty to ensure our investments are well-positioned to manage the physical climate risks, regulations, and policies that are developed to promote a Net Zero economy. Being an active investor, we have the skills and capabilities to deliver investments that will support the necessary transition to Net Zero. Representing our asset owners, we have a role to play in influencing those companies and organisations in which we invest to take into account climate change; this includes providing better climate-related financial disclosures, which assist us in making better-informed investment decisions.

While climate change creates risks to investors, there are also investment opportunities related to the transition to a lower carbon economy. The transition to a Net Zero economy will require new business models, new companies and new infrastructure. These represent potentially profitable investments that will help our Partner Funds look after beneficiaries for decades to come.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.

[1] https://www.ipcc.ch/sr15/

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension into ~~the~~ net zero transition strategies and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce, ~~and the~~ communities in which the companies~~' facilities are located~~ operate, supply chains, and customers. ~~We~~Whilst our specific expectations differ depending upon the sector and market, we expect all companies to consider the potential stakeholder risks and opportunities associated with decarbonisation.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We ~~will~~ continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

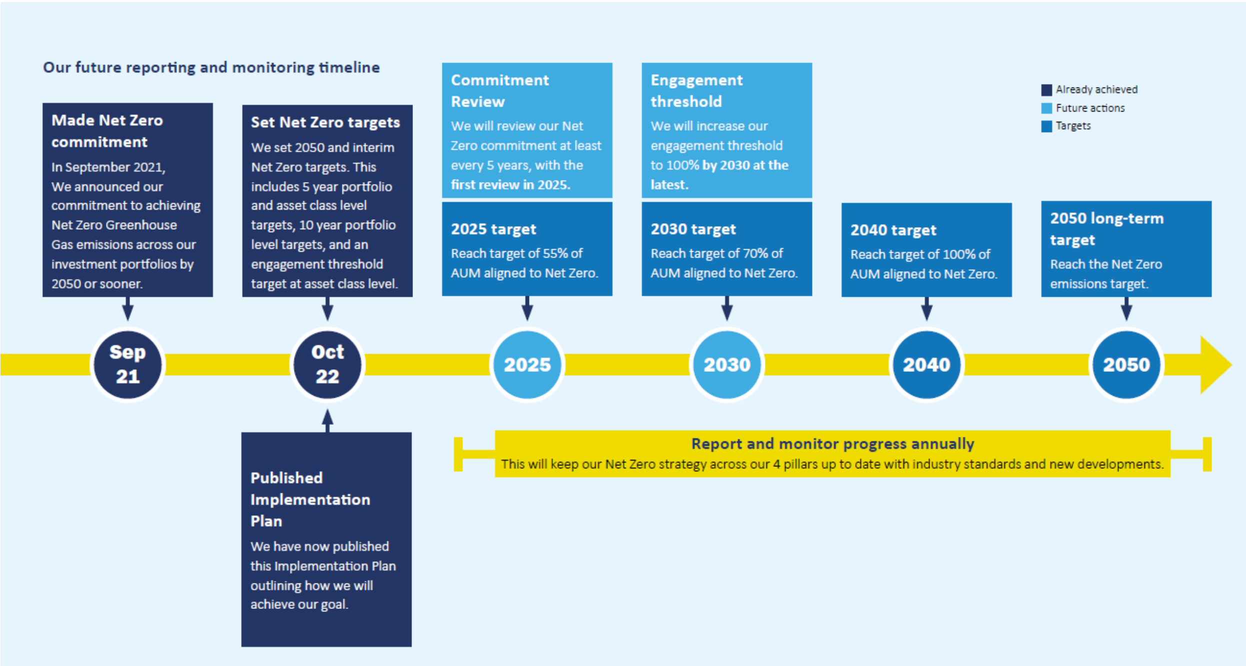
We consider climate change risks and opportunities within our investment decision making process.

We are committed to transparency regarding our climate change issues and activities.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

2.4 Roadmap

The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We ~~will~~ continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the Climate Change~~TCFD~~ report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative (NZAM) pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework (NZIF) to support us in implementing our strategy to being Net Zero by 2050.We have developed an implementation plan which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. ~~The Net Zero Implementation Plan can be found on our website.~~

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with NZIF. We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers approximately 57% of our AUM (at 31/03/2023) and we will look to increase coverage across the rest of our investments when appropriate.

We have set short and medium-term reduction targets for carbon emissions, targeting a 53% reduction in financed emissions (normalised by AUM) by 2025 and a 66% reduction by 2030 in order to reach 100% emission reductions by 2050 or sooner. We have~~ also~~ also set Net Zero alignment targets for our portfolios based on specific assessment criteria with the aim of reaching 100% Net Zero alignment by 2040 and~~.~~ asset class level engagement targets with 80% of finance emissions to be under engagement by 2025, reaching 100% coverage by 2030.

More detail can be found in the~~The~~ Net Zero Implementation Plan~~ can be found~~ on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the Climate Change~~TCFD~~ report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. The remit of the Investment Committee includes overseeing progress and reporting against our Net Zero targets. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change, with support and oversight from the Risk and Compliance function.~~.~~ Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework and considered within the related components of our Risk Appetite Framework, such as strategy, customer outcomes and stewardship. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company's governance, risk and control framework.

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative (TPI)[2] tool and Climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We continue to develop climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This is an iterative process, recognising that data, tools and methodologies are developing rapidly.

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

We understand that scenario analysis can be~~is~~ useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve and are aware of the current limitations of the models and associated risks of using this information to make informed investment decisions. ~~During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.~~We have used the Climate Financial Risk Forum's selection framework to consider climate scenario options and based on this framework will use the Regional Model of Investment and Development ("REMIND") model scenarios which come from the Network for Greening the Financial System ("NGFS"), a group of central banks and supervisors in the financial system. We will be considering a 1.5°C disorderly scenario, 2.0°C scenarios (orderly and disorderly) and the 3.0°C 'Hot House World' scenario. We will initially conduct scenario analysis on our listed equity and investment grade credit funds.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies and fund managers is~~will be~~ a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. Using these criteria,~~ and~~ due to the potential for stranded assets, and the significant carbon emissions of certain fossil fuels~~-~~ we will not ~~longer~~ invest in~~interpret this to cover~~ public market companies or illiquid assets with >25% of revenue derived from thermal coal and oil sands, unless there are exceptional circumstances.~~ and will therefore not invest in these companies~~. ~~For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments.~~

We will exclude public market companies in developed markets with >50% revenue derived from thermal coal power generation. For companies in emerging markets the revenue threshold is >70%, this is to reflect our support of a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. We will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

~~For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments.~~ Any public market companies excluded will be reviewed ~~monitored~~ with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual Climate Change Report~~TCFD report~~.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings, Climate Action 100+ ('CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (SBTi) to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions.

ESG risks, including climate change, are an integral part of the due diligence process, including ongoing monitoring for our **Real Estate** funds. For all funds, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies, sectors and assets. We will look to assess and monitor all the funds against portfolio metrics in line with TCFD recommendations. For UK real estate, there is a blueprint and roadmap for Net-Zero Carbon, prepared by the selected third-party Investment Manager (TPIM) working with an external expert (Verco) to understand (I) current carbon baselines (II) carbon reductions and costs to reduce global warming to 1.5 degrees (III) high risk assets within their client portfolios. This will be of significant benefit to Border to Coast and the real estate funds as they evolve.

~~To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.~~

5.3 Working with External Managers

Assessing climate risk is an integral part of the External Manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We expect managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we encourage managers to make a firm wide net zero commitment. We ~~will~~ work with External Managers to implement specific decarbonisation parameters for their mandate. We ~~will~~ monitor our managers' carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We ~~will~~ also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this ~~will~~ acts as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we ~~will~~ hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarbonisation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes ~~adverse~~ voting ~~instructions~~ against management on related AGM voting items, amongst other steps. We practice active ownership through ~~voting,~~ monitoring companies, engagement, voting and litigation where considered to be appropriate. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

Engagement is the primary mechanism for driving alignment to Net Zero in our portfolio companies and thereby meeting our Net Zero targets, both at asset class and portfolio level, as well as for driving real-world decarbonisation. We have therefore set asset class level engagement targets with 80% of financed emissions to be under engagement by 2025-, reaching 100% coverage by 2030.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change (IIGCC), CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the TPI.

In particular, we are currently focusing on the following actions:

- When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI, ~~and~~ CA 100+ Net Zero Company Benchmark and the Urgewald Global Coal Exit List. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- ~~Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy~~We will generally vote in favour of shareholder resolutions that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.
- We will vote against management 'Say on Climate' resolutions that are not aligned with the Paris climate agreement.
- We will co-file shareholder resolutions at company AGMs on climate risk disclosure, emission reduction targets, transition plans, and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability, ~~and~~ disclosure of climate risk and ~~-~~ to publish greenhouse gas emissions reduction targets in line with the TCFD recommendations.
- ~~Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.~~ Engage with the largest emitters across our portfolios on transition plans and science aligned capital expenditure plans.
- Engage with the banking sector as it plays a pivotal role in the transition to a low-carbon economy.
- Engage with our largest portfolio emitters and all fossil fuel companies and banks subject to votes against management due to failure to meet our climate policies.
- Support a Just Transition through collaboration with other investors and consider in our engagement and voting.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Implementing~~Use the~~ our net zero stewardship strategy developed using IIGCC's Net Zero Stewardship Toolkit ~~to develop our net zero stewardship strategy~~.
- Use carbon footprints, the TPI toolkit, CA100+ Net Zero Company Benchmark, ~~and~~ SBTi along with other data sources to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of organisations such as the IIGCC. We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

~~Transparency~~Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed ~~is one of our key organisational values.~~ We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We ~~will~~ keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This ~~will~~ includes:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds. R~~r~~eport in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment.
- We ~~will~~ disclose our voting activity and report on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclose climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.

AGENDA ITEM 6

Border to Coast Joint Committee

Date of Meeting: 28 November 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 engagement supporting our priority themes, as well as engagement undertaken by Robeco.

1.3 Peak AGM voting season has concluded and we have produced our first report covering the 2023 AGM season.

1.4 We continue to respond to consultations related to responsible investment and have submitted a response to the FCA Vote Reporting Group consultation.

1.5 The quarterly stewardship and voting reports produced by Border to Coast and Robeco for the quarter ended 30th September 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 continue to implement our thematic engagement plan to support the priority themes through direct engagement with companies, engagement conducted by Robeco and external managers, and through collaboration with other institutional investors.

3.2 The peak proxy voting season has concluded and an update is provided on engagement with companies pre and post AGMs.

3.3 Pre-AGM engagement:

- Informed 29 companies in advance of the AGM of our decision to vote against management and explained our rationale and responses have been received from eight companies to date.
- These included top 30 portfolio emitters, oil and gas, banks, and the subjects of high-profile shareholder resolutions.
- As part of engagement escalation, we publicly pre-declared our voting intention at Shell, BP, and Glencore - Shell and BP attracted press coverage.

3.4 Post-AGM engagement:

- We have written to the 25 UK listed companies where we voted against directors due to insufficient board diversity to explain our requirements. Six companies have responded to date.
- In Q4 we will write to the remaining companies that were subject to votes against management, in line with our climate voting policy, due to misalignment with or climate goals.

3.5. We continue to support the Workforce Disclosure Initiative which aims to improve corporate transparency and accountability on workforce issues and provide investors with comprehensive and comparable data. Data is collected through an annual survey and engagement programme. We engaged with 21 companies, including 11 large global companies that haven't responded to investor requests in the past, requesting them to participate and complete the survey.

3.6. The Just Transition engagement programme has commenced. CLP Holdings is an energy utility company operating in India and elsewhere. We are piloting engagement with them to become the world's first company with operations in emerging markets to adopt a formal Just Transition strategy. In Q3, our first meeting was held to introduce ourselves and the engagement programme, which was well received. Engagement is ongoing.

3.7. We are leading engagement with easyJet along with three other institutions on behalf of the IIGCC Net Zero engagement initiative. Following assessment of easyJet's transition plans, we wrote to the company in Q3 to request a meeting to discuss its short and medium-term emission reduction targets and the credibility of its decarbonisation strategies. The meeting will be held in Q4.

3.8. We are part of the collaboration of investors engaging with companies on modern slavery through the 'Find it, Fix it, Prevent it' initiative led by CCLA. We are leading engagement with Crest Nicholson and Balfour Beatty and held meetings with both companies on their modern slavery risk management.

3.9. Robeco launched its Just Transition in Emerging Markets engagement theme at the end of September. Engagement will initially be with companies in the mining and energy sectors, on defining just transition ambitions and strategies. Engagement objectives will include a company's Just Transition ambitions and governance, stakeholder engagement, the need for a Just Transition Plan, identifying, assessing and managing social risks and impacts, and disclosures on progress.

4 Voting

4.1 As peak voting season has concluded the number of meetings we are voting at has dropped significantly. The markets with AGMs between September and November at which we are voting are South Africa, India and Australia.

4.2 As we see a lull in our voting activity this quarter, we have taken the time to analyse our voting over the main season. Due to our strengthened voting policy for the oil and gas sector we voted against the re-election of the chair of the board at 95% of oil and gas companies; we also voted against 71% of all 'Say on Climate' management resolutions due to insufficient progress being made by companies on their climate transition plans.

5 RI strategy

5.1 We submitted a response to the FCA's Vote Reporting Group consultation. The aim of the consultation is for industry consensus on a voluntary vote reporting template for asset managers in the UK. We think a comprehensive and standardised vote-reporting template is an important step towards improved and more consistent reporting and aligns with growing expectations from stakeholders and regulators in this area. However, we recognise that considerable challenges remain in terms of achieving consistent and comparable voting disclosures.

5.2 We became a signatory to the UN-supported Principles for Responsible Investment (PRI) in October 2019; this allows us to publicly demonstrate our commitment to responsible investment. Signatories must report annually using the PRI Reporting Framework, reporting on asset specific modules which incorporate detailed assessment indicators on Responsible Investment implementation. The last two years has seen significant revisions to the Reporting Framework which resulted in the PRI pausing signatory reporting in 2022. This year reporting has been revived and we have submitted reporting covering the following modules: Senior leader's statement; Organisational overview; Selection/appointment/monitoring; Policy governance and stewardship; and Sustainable outcomes. The latter module allows us to report our progress against our Net Zero targets as a member of the Net Zero Asset Managers initiative. The current timeframe is for the PRI to issue assessment reports to signatories in December.

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 quarter ended 30th September can be found on our website.

6.2 As we have reached the end of the main proxy voting season we have looked back over the year to date and published our first Proxy Season Report. This covers the importance of voting, how we implemented our voting policy and the results of our voting activity.

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.

8.2 We have published the regular quarterly reports on stewardship (voting and engagement) which detail our activities as an active steward. We have recently released our first Proxy Season Report. All reports can be found on the website.

8.3 The Committee is asked to note the report.

9 Author

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9 November 2023

Important Information

Border to Coast Pensions Partnership

Joint Committee

Date of Meeting: 28 November 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

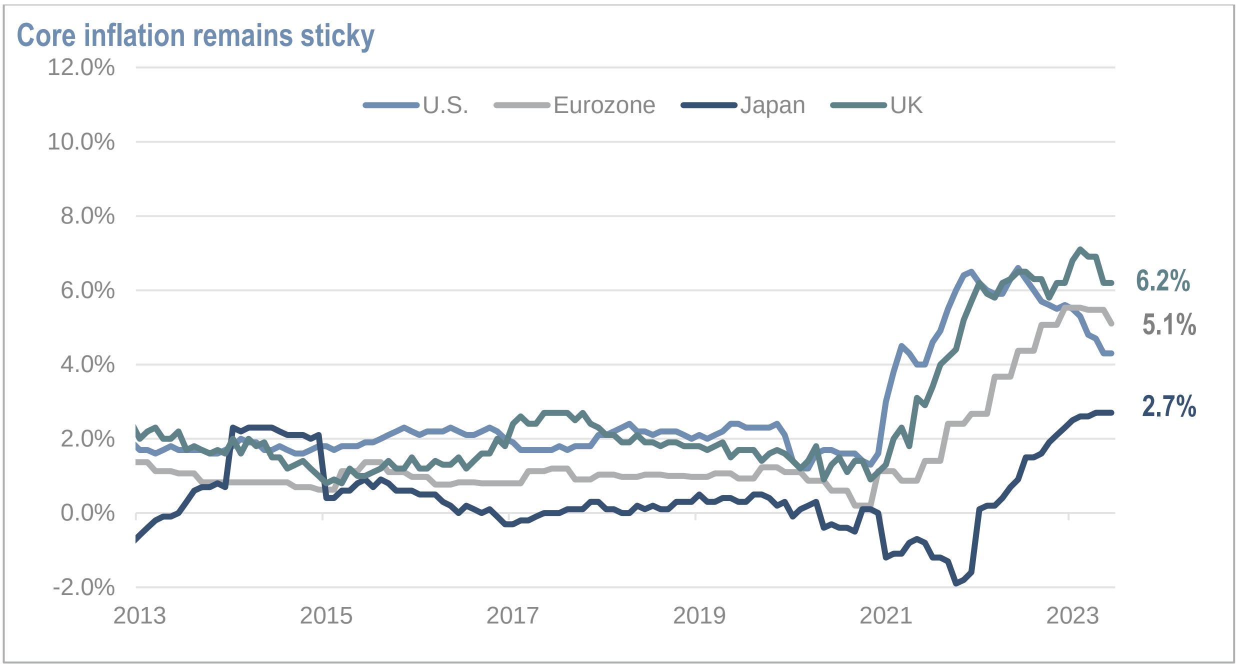
2.1 That the report is noted.

3 Macroeconomic environment

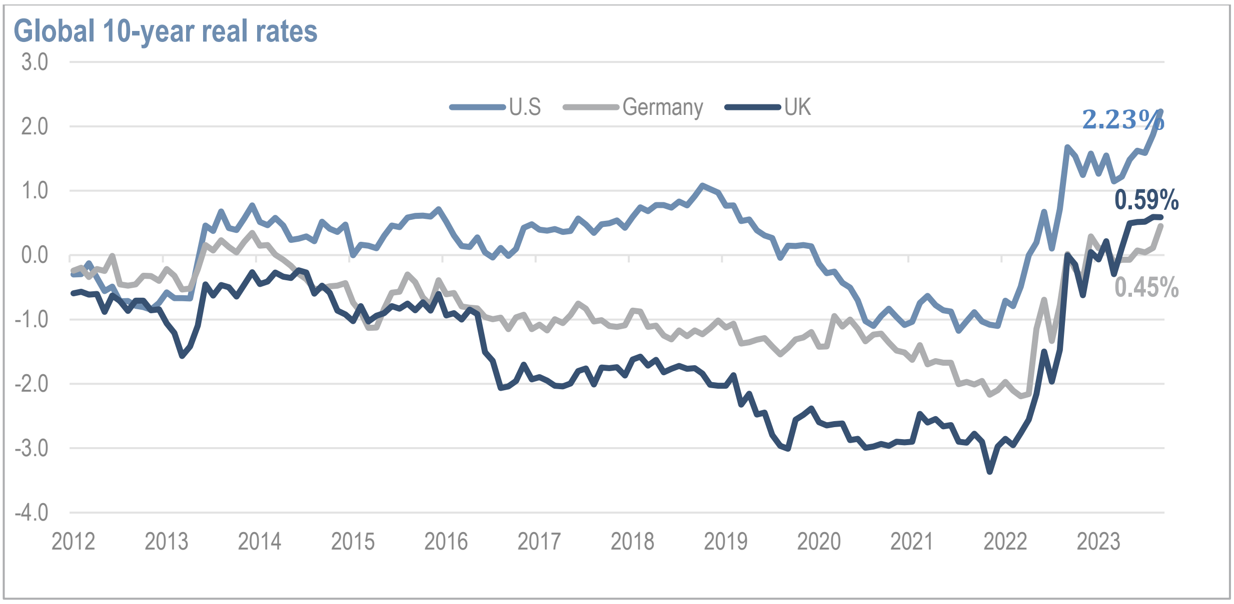
3.1 The story of the third quarter has been that good news for the economy has not been good news for financial assets. 10-year US Treasury yields surged nearly 75 basis points over the course of the quarter to their highest level since 2007. Robust domestic data and policy rate projections from the Federal Reserve are signalling the economy can handle high interest rates, so calls for an imminent recession continue to be premature.

3.2 Global growth is slowing, inflation is falling (but sticker than forecasts) and the central belief is that interest rates will be higher for longer. Corporate earnings are under pressure and are showing signs that higher rates, wage increases, and commodity price resurgence are hitting margins.

3.3 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 September, core Inflation in the US is 4.3% and 6.2% in the UK. The challenge that firms face in finding staff raises the likelihood they will hoard workers even if activity levels slow. The tightness in the labour market party explains why core inflation remains elevated across the US, eurozone and UK.



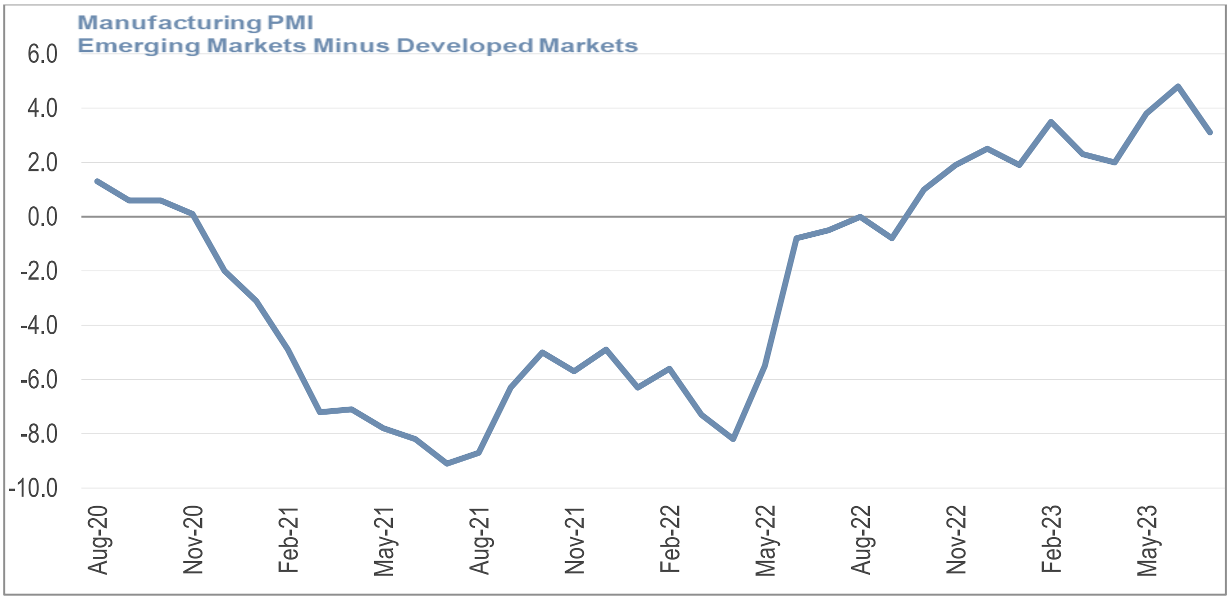
3.4 Real rates are moving back to previous highs. It is important for investors to consider this dynamic and how supportive this is of bonds (nominal and inflation linked exposures). The meaningful risk-free weight coupled with falling inflation could bolster investor appetite for bonds.



3.5 The evolution of government debt to GDP in the US, eurozone and UK is a concern. The UK for example has grown from 85% in 2020 to 105% today. Futher, government interest payments as a % of nominal GDP have risen form 1.6% to 3.8% over the same time frame. This speaks to the fiscal limitations of the coming years.

3.6 China underperformed in Q3 as indicators continued to point to a lacklustre economic recovery and as problems in the property sector resurfaced. Limited policy stimulus has been announced to address both issues, but macroeconomic data released towards the end of the quarter was more positive than anticipated.

3.7 However, more broadly after two years of weak growth versus Developed Markets Emerging markets growth forecasts are improving – as can be seen from the manufacturing PMI improvements in 2023.

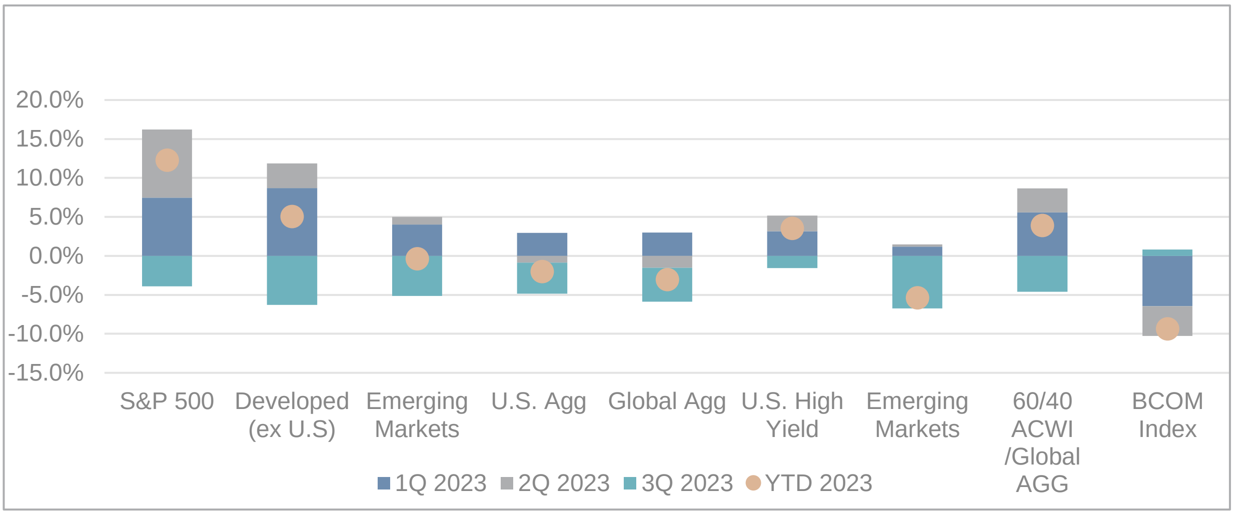


4 Markets

4.1 Following a robust rally for stocks in the first half of 2023 the third quarter offered something of a reality check. Developed market equities fell by -3.4% over the quarter, taking year to date returns down to a still strong +11.6%. Value stocks proved relatively resilient vs their more expensive growth counterparts, returning -1.7% over the quarter in comparison to -4.9% for growth stocks. The gap between the two styles remains high year to date, with growth stocks outperforming by more than 18% for in 2023. Any deterioration in the geopolitical environment would see this advantage narrow. A sell-off in global bond markets was partly to blame for the pressure on risk assets, with the global aggregate bond benchmarks falling by -3.6% in the third quarter. The US Treasury market was a notable laggard, while in credit, the lower interest rate sensitivity of high yield bond benchmarks helped both the US and European high yield markets eke out positive returns, return +0.5% and +1.5% respectively. As bonds and stocks fell simultaneously, commodities were the notable out performer, returning 4.7% over the quarter, echoing the market dynamics of 2022.

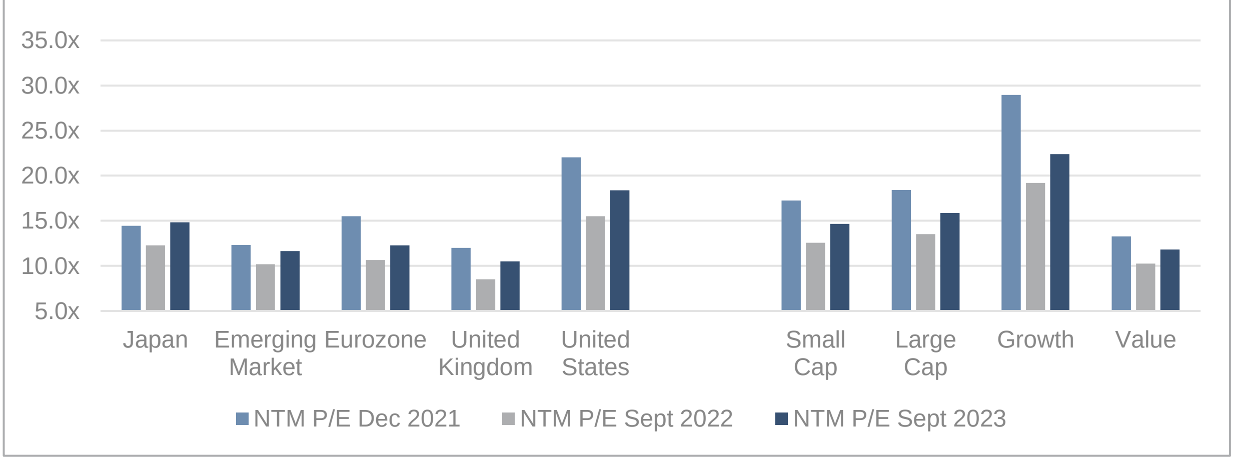
4.2 The best performing major equity market in local currency terms was Japan, returning +2.5% over the quarter to continue a strong run year to date. The UK market was the next strongest performer regionally, returning +1.9% in part that to its relatively large tilt towards the energy sector, which was supported by a sharp rise in oil prices. Returns were negative in all other regions, taking year-to-date returns in the US and Europe ex-UK to +13.1% and +10% respectively. In emerging markets, renewed concerns about the state of the property sectors in China weighed on sentiment, despite a number of new stimulus measures announced over the quarter that were aimed at stabilizing housing activity. In fixed income markets, government bond returns were negative across developed markets as yields rose over the quarter. UK Gilts remain the major laggard year to date, but did enjoy a relatively better few months, returning -0.7% over the quarter as weaker growth data forced investors to dial down their expectations for where interest rates will peak in this hiking cycle.

2023 Global Asset Class Returns (end Q3 2023)

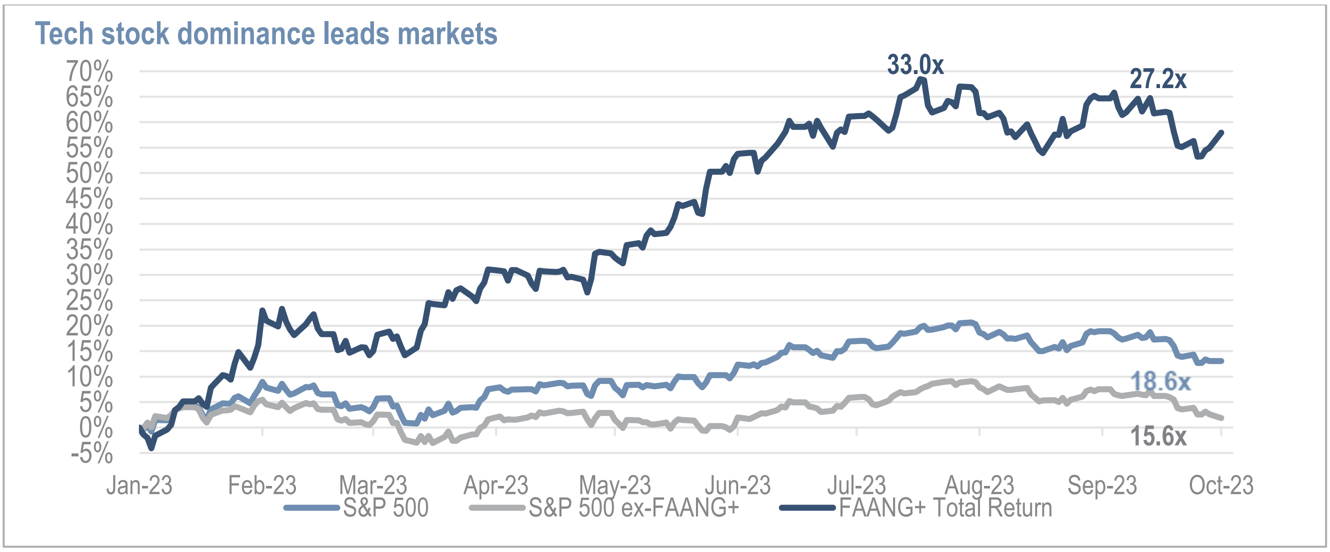


4.3 US equity valuations are at a premium to other regions and the valuation premium of growth to value remains very high.

Key regional, size and style valuations



4.4 While much of 2023 has been about US Tech dominance we are beginning to see this plateau. With valuation gaps very wide across regions, styles and capitalisation, we are likely to be entering a very good period for active investors with a medium-term view.



5 Fund Performance

5.1 The table below shows performance data for the ACS funds (listed assets) to 30 September 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
Equities							
UK Listed Equities	+1%	Internal	Jul-18	4.1%	3.3%	+0.8%	-0.2%
UK Equity Alpha	+2%	External	Dec-18	4.9%	5.9%	-1.0%	-3.0%
Overseas Developed	+1%	Internal	Jul-18	8.7%	7.2%	+1.5%	+0.5%
Global Equity Alpha	+2%	External	Oct-19	9.1%	8.9%	+0.2%	-1.8%
Emerging Market Equities	+1.5%	Hybrid	Oct-18	2.5%	4.2%	-1.7%	-3.0%
Alternatives							
Listed Alternatives	N/A	Internal	Feb-22	-3.4%	4.0%	-7.4%	N/A
Fixed Income							
Sterling Inv Grade Credit	+0.6%	External	Mar-20	-1.7%	-2.7%	+1.1%	+0.5%
Sterling Index Linked Bonds	+0.2%	Internal	Oct-20	-22.1%	-22.3%	+0.3%	+0.1%
Multi Asset Credit Fund	N/A	Hybrid	Nov-21	-3.7%	6.1%	-9.8%	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. Overseas Developed, Global Equity Alpha, UK Listed Equities, 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 Q3 was a difficult quarter for our funds and we have seen a pull-back in relative performance. Year to date 4 of the 9 funds are beating their benchmark (Sterling Inflation linked, Sterling Investment Grade, Overseas Developed and Global Equity Alpha).

5.5 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.

5.6 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 modest relative year-to-date performance of +0.1%. The Multi-Asset Credit (MAC) fund has performed very well over a 12-month horizon, returning +9%, which is ahead of its cash plus benchmark (by 1.39%). YTD performance is less impressive, +4.2%, as returns have slowed over Q2 & Q3.

5.7 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 withing the Listed Alternatives universes. We are also looking to improve overall risk balance of the portfolio. However, both the yield (+3% above equities) and high discounts to NAV are supportive of the strategy.

6 Looking forward

6.1 We are emerging from a uniquely challenging environment in financial markets: the MSCI World Index and Bloomberg US Treasury Total Return Index have delivered negative results in each of the past three months. This marks the longest time stocks and bonds have declined in concert on a monthly basis since at least 1972.

6.2 Twelve-month forward earnings per share estimates are still rising, though the pace of improvement will slow as economic activity moderates. The downshift in growth will help solidify the view that the Federal Reserve’s tightening cycle is also likely over. Historically, stocks have tended to rally for a few months once the US central bank stops hiking rates, regardless of whether or not there is a soft or hard landing.

6.3 The main themes that have come out of the Border to Coast Asset Allocation Committee are – 1) equity headwinds are building – new orders, credit availability and money supply point of weakness in the coming quarters. 2) Emerging Marekt Opportunities are looking better with rate cuts (Brazil, China and Chile) and 3) the much anticipated slowdown in inflation is materialising

6.4 The key risks in the short term are now firmly geopolitical. Conflicts are now open on two fronts (Ukraine and Middle East). Escalation on either front will impact risk assets and indeed may have more significant sustainable impact on energy prices.

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. 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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10 November 2023

Important Information

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Appendix A

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