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PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

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

Date: Thursday, 20 June 2024

Time: 11.15 am

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 John Kabuye	Teesside Pension Fund
Cllr Jayne Dunn	South Yorkshire Pension Fund
Cllr Nick Harrison	Surrey Pension Fund
Cllr Ken Dawes	Tyne & Wear Pension Fund
Cllr Christopher Kettle	Warwickshire Pension Fund

Scheme Member Representatives

Lynda Bowen	East Riding LPB
Nicholas Wirz	Tyne & Wear LPB

Terms of Reference of the BCPP Joint Committee

1. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.
2. The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

2.1 Phase 2 – Post Establishment and Commencement of Operations

- 2.1.1 To facilitate the adoption by the Authorities of relevant contracts and policies.
- 2.1.2 To consider requests for the creation of additional ACS sub-funds (or new collective investment vehicles) and to make recommendations to the BCPP Board as to the creation of additional sub-funds (or new collective investment vehicles).
- 2.1.3 To consider from time to time the range of sub-funds offered and to make recommendations as to the winding up and transfer of sub-funds to the BCPP Board.
- 2.1.4 To review and comment on the draft application form for each additional individual ACS sub-fund on behalf of the Authorities prior to the Financial Conduct approval (or the draft contractual documents for any new collective investment vehicle).
- 2.1.5 To formulate and propose any common voting policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.6 To formulate and propose any common ESG/RI policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.7 To formulate and propose any common conflicts policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.8 To agree on behalf of the Authorities high level transition plans on behalf of the Authorities for approval by the Authorities for the transfer of BCPP assets.
- 2.1.9 To oversee performance of the BCPP Pool as a whole and of individual sub-funds by receiving reports from the BCPP Board and taking advice from the Officer Operations Group on those reports along with any external investment advice that it deems necessary.
- 2.1.10 To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

AGENDA

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Minutes of the Border to Coast Joint Committee
Tuesday 26th March 2024 at 11:15am
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

- 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 John Kabuye, Teesside Pension Fund
Cllr Anne Walsh, Tyne & Wear Pension Fund
Cllr Christopher Kettle, Warwickshire Pension Fund
- Scheme Member Representatives:** Nicholas Wirz
Lynda Bowen
- Fund Officers** Andy Watkins, Bedfordshire Pension Fund
Pete George, Cumbria Pension Fund
Paul Cooper, Durham Pension Fund
Tom Morrison, East Riding & North Yorkshire Pension Funds
Jo Kempton, Lincolnshire Pension Fund
George Graham, South Yorkshire Pension Fund
Neil Mason, Surrey Pension Fund
Nick Orton, Teesside Pension Fund
Paul McCann, Tyne & Wear Pension Fund
Chris Norton, Warwickshire Pension Fund
- Partner Fund Nominated Non Executive Directors** Cllr David Coupe
Cllr John Holtby
- Border To Coast Representatives:** Joe McDonnell – Chief Investment Officer
Chris Hitchen – Chair
Fiona Miller – Deputy Chief Executive Officer
Richard Hawkins – Non-Executive Director

Graham Long – Head of External Management
Ewan McCulloch – Chief Stakeholder Officer
Sally Ronald – Head of Research
Alex Faulkner – Responsible Investment
Manager
Teju Akande – Climate Change Manager

Apologies: None received

1 APOLOGIES/DECLARATIONS OF INTEREST/ANNOUNCEMENTS

The Chair welcomed everyone to the meeting including members of the public.

Apologies were noted as above.

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

George Jabour declared a non-pecuniary interest in relation to the nature of his campaigning work, including the way public sector pension funds manage their funds.

The following changes to the Joint Committee 2024/25 membership were noted:

Cllr Anne Walsh, Tyne and Wear Pensions Authority, would be standing down from her role.

Cllr Eddie Strengiel, Lincolnshire Pension Fund, may not be returning to his role as he will become chair of the county council.

On behalf of the Joint Committee the Chair thanked both members for their contribution and support to the committee.

2 MINUTES OF THE MEETING HELD ON 28 NOVEMBER 2023

The minutes were received, and members were asked to approve.

RESOLVED – The minutes of the meeting held on 28 November 2023 be agreed as a true record.

3 QUESTIONS FROM THE PUBLIC

Questions had been received from Ms Alison Whalley, Ms Jenny Condit and Lindsey Coeur-Belle which the Chair had agreed should be responded to.

The Chair provided responses in terms of the Joint Committee's position and the approach taken by the Border to Coast company on the issues raised was explained. A full copy of the questions and the responses is appended to the minutes.

4 SCHEDULE OF FUTURE MEETINGS

It was noted that the schedule required update to reflect that the next meeting will take place on 20 June and not the 18 June as stated.

RESOLVED – To note the scheduled dates for meetings of the Joint Committee and member workshops for the 2024/25 and 2025/26 municipal years as set out in the report.

5 JOINT COMMITTEE BUDGET

A report was presented updating the Joint Committee on the current position of the agreed budget confirming that the expenditure to date was £42,415.

It was proposed that the budget for 2024/25 should be increased to £50,000.

RESOLVED –

- i. To note the budget position for 2023/24.***
- ii. To agree a budget for 2024/25 of £50,000.***

6 EVOLVING THE WORK OF THE JOINT COMMITTEE

George Graham presented a report outlining the proposed changes to the Joint Committee's approach to the oversight of the work of the Border to Coast operating company and the how this is supported by the Officer Operations Group(OOG).

Discussions took place around the need to avoid duplication of the work of individual pension committees, with the quarterly performance reviews moving to an Investment OOG. The need to ensure a clear mechanism is in place for raising issues that may require Joint Committee input prior to the annual review was also raised.

It was noted that to allow any new process to settle it is proposed to leave the previously agreed proposal to carry out an effectiveness review of the Joint Committee in abeyance and return to it once these new arrangements and any changes in membership are in place.

RESOLVED:

- i. To approve the changes to the way in which the Committee's agenda is structured and the way in which the Committee relates to the OOG as outlined in the body of this report.***
- ii. To agree to leave the effectiveness review of the Joint Committee in abeyance as outlined in the report. A timeline to be provided by the OOG at the June meeting.***

- iii. To agree that the OOG will report to the Joint Committee by exception any in year issues.*

7 PROTOCOL FOR PUBLIC QUESTIONS

A report was presented that outlined a proposed protocol for dealing with public questions at the Joint Committee.

It was noted that the wording at 3.2b i) would be rephrased in relation to the geographical area.

RESOLVED – To approve the protocol for dealing with public questions at meetings of the Joint Committee as set out in the body of the report.

8 RESPONSIBLE INVESTMENT UPDATE

Sally Ronald 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 reference was made to engagement supporting priority themes, the ongoing work to prepare for the voting season and consultations related to responsible investment.

Members discussed the importance of communications with Pension Committees and ensuring that the Economic Activity of Public Bodies (Overseas Matters) Bill does not erode local input into responsible investment activities.

It was noted that further information around the Bill would be made available from LAPFF and SAB.

Engagement with key banks was discussed, looking at existing collaborative systems. Measuring the success of the RI policy was also discussed with an option for case studies to be presented at future meetings.

The Committee noted and congratulated Border to Coast on the achievements set out in the report:

- Pensions for Purpose - Paris Alignment Award – Best Climate Change Policy Statement.
- Principles for Responsible Investment (PRI) assessment outcomes
- Retention of signatory status to the UK Stewardship Code

RESOLVED – To note the contents of the report.

9 MARKET REVIEW

Joe McDonnell presented a report to update members on the quarter 4 market environment and fund performance. It was noted that the report now includes commentary on debate across the asset allocation committee.

Members discussed the oversight of performance of below benchmark equities and questioned how these would be improved. Examples were given of ways forward including review of management structures within companies along with the annual reviews that are schedule for these companies.

RESOLVED – To note the contents of the report.

Exclusion of the Public and Press

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

10 FACTOR BASED INDEXED EQUITIES

A report was presented detailing the proposal to launch a factor-based indexed equity fund. The paper set out the background of the work that has already taken place and gave suggested timelines, dependant on Pensions Committee approvals. It was noted that the Company's Board had interrogated the timeline and were happy with the proposals.

The committee considered the proposal and following discussion around key areas noted their support.

RESOLVED - To note the overview of the Factor Based Indexed Equities

11 MULTI ASSET CREDIT AND STERLING INVESTMENT GRADE CREDIT ANNUAL REVIEWS

Graham Long presented a report summarising the annual reviews of Sterling Investment Grade and Multi Asset Credit and setting out further work to be undertaken to re-evaluate MAC secondary benchmarks and manager allocations.

Following discussion around the basis of the manager ratings and risks associated to key persons it was:

RESOLVED – To note the contents of the report.

12 STERLING INDEX-LINKED BONDS ANNUAL REVIEW

A report was presented that detailed the annual review of the Sterling Index-linked Bond Sub-fund. Key points were noted in relation to performance,

benchmarking and resourcing. It was noted that no substantive changes to the Sub-fund were considered necessary following the annual review.

Following discussion around timescales and window of opportunity it was:

RESOLVED – To note the contents of the report.

13 CEO REPORT

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

The Committee were updated on the following key areas:

- Partner Fund collaboration.
- An update on progress in relation to corporate functions including the expected outturn for the Operating Budget.
- The key business risks to the organisation, noting that Political risk continues to be significant.

Following discussion around impact of delays in recruitment it was:

RESOLVED: To note the contents of the report.

14 INVESTMENT REVIEW QUARTER ENDED 31 DECEMBER

Richard Hawkins was welcomed to the Committee.

A review of the performance and activity of the Border to Coast Investment Funds over Q4 2023 was presented which set out detail in the following key areas:

- Market Value.
- Performance.
- Market Background.

Following discussion, it was:

RESOLVED – To note the contents of the report.

15 STANDING ITEM - UPDATE ON EMERGING MATTERS

The Committee discussed the work that SAB is carrying out in relation to the sanctions Bill. The Procurement Bill was also noted as coming into force in October 2023.

CHAIR



PENSIONS PARTNERSHIP

Border to Coast Joint Committee 26th March 2024 – Public Questions

Question 1 - Submitted by Ms Alison Whalley

Preamble

As the Joint Committee is aware, climate risk scenarios (from advisers such as Mercers and Hyman Robertson) are one of various factors used to inform investment, especially long-term investment decisions. Recent research has put this modelling under academic scrutiny and found that these scenarios produce mis-leading economic modelling that grossly mismatches what climate scientists are saying about how a world that warms to over 1.5°C will behave. Important bodies like the Pension Regulator and the Institute and Faculty of Actuaries are sounding the alarm and urging investors to review their reliance on such modelling.

Question

We are encouraged to learn that BCPP does not use this flawed climate modelling. This being the case, we would like to know how BCPP assesses climate risk and what modelling is used? And further, whether this important information has been shared with your eleven Pension Fund partners, and if not, why not, given that BCPP's position on this matter would carry considerable weight with the individual Pension Funds and the impact on their Responsible Investment and Climate Change/Net Zero policies.

Response

The Border to Coast operating company provides fund management services to the 11 partner pension funds. Under the LGPS regulations it is the responsibility of the 11 partner funds to determine their own policies to the management of climate risk. In doing this they will make use of information provided by the Border to Coast company (and other fund managers with whom they might have relationships) although the licensing arrangements for the use of some data make it difficult for this to be fully shared.

The Company uses third-party ESG and carbon data to assess individual holdings. The Company conduct carbon screens to identify the largest emitters and potential risks around stranded assets. The Company utilise internal, sell-side and climate-specific research and produce Carbon Risk Assessment (CRA) reports for the largest emitters in our portfolio, which provide a deeper dive to assess the credibility of the transition plans of the companies. The Company also use forward-looking metrics, including the TPI tool, the CA100+ Net Zero Company Benchmark and the IIGCC's Net Zero Investment Framework (NZIF) Paris Alignment metric to assess companies' transition progress. Climate risks are factored into the selection and appointment of external managers and the ongoing monitoring of these mandates.

Stewardship is a critical component of the Company's Net Zero Implementation Plan, with engagement being the primary mechanism for driving alignment to Net Zero in our portfolio companies and thereby meeting our own Net Zero targets, both at asset class and portfolio level, as well as for driving real-world decarbonisation. They have therefore developed a Net Zero Engagement Strategy using the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Stewardship Toolkit.

The collectively agreed position of the Partner Funds on these issues is reflected in the policies agreed by the Joint Committee each year. Partner Funds own policies will vary reflecting their own

circumstances and either mirror the collective policy or be a statement of where they would wish the consensus position to move to.

Question 2 – Submitted by Ms Jenny Condit

Preamble

In February of this year BCPP announced a number of steps intended to “Further strengthen responsible investment policies to support climate and ESG risk management”. One particular part of the policy, however, appears to be anything but strong. You say you will not invest in organisations where thermal coal and oil sand production represent more than 25% of revenues. The implication of this statement is that these types of fossil fuels are so damaging that you will restrict your ownership of them. Notwithstanding this policy, in the past two years you have built a £50mm position in ConocoPhillips (COP) in the Global Equity Alpha fund. This company is a major player in the Athabasca Tar Sands, and effective with a recently completed acquisition has actually doubled its tar sands assets. COP must now own the largest or second largest amount of tar sands reserves in the world. Yet even given its dominant position in this business, COP does not breach your test for exclusion from your portfolio. In fact, it’s not even close. This is because COP, a vast fossil fuel company, generates so much conventional oil and gas as well. This demonstrates that if you have a big enough carbon footprint overall, you can bring as much tar sands product into the world as you want and BCPP can still own you.

Question

Would you accept that your policy for exclusion of businesses from your portfolio as a function of a percentage of revenue test for a troublesome product line is really not fit for purpose? Do you not think a test should better address how much carbon a business is generating, rather than how much money the owner is making on it? In the case of tar sands, with its extreme carbon intensity, a 25% contribution to revenue is equivalent to a much larger contribution to carbon emissions. A test which does not exclude a dominant player in a business is less a test than a cakewalk, surely?

Response

The selection of individual stocks is not a matter for the Joint Committee and is delegated to those managing portfolios within the individual investment funds. Each fund is managed in line with an investment mandate which defines the investment universe for the Fund and other parameters such as performance targets and risk tolerances. These are agreed by partner funds during the design process for each investment fund and would require the agreement of partner funds to further changes. The collective position of the partner funds as set out in the various collectively agreed policies is to favour engagement over divestment while at the same time gradually ratcheting down the revenue threshold applied to exclude companies in particularly problematic sectors from the investment universe. This is the position that the operating company implements and for it to be changed would require a change in the consensus among partner funds. There are different means of determining how to exclude individual companies, however, a revenue threshold is the most common means and the easiest to apply in practice.

Question 3 – Submitted by Lindsey Coeur-Belle

Preamble

In 2022 PFZW, a €256bn care and welfare pension fund in the Netherlands and the 3rd largest in Europe, divested from 114 fossil fuel producers who had no carbon reduction targets.

They then undertook a 2-year engagement programme in which oil and gas companies were asked to produce a viable energy transition strategy by the end of 2023 with short- and medium-term targets and information on carbon emissions. As a result of this exercise in February this year PFZW sold their €2.8bn stake in a further 310 oil and gas companies including Shell, BP, and Total Energies.

Question

PFZW have demonstrated the effectiveness of utilising a “SMART” approach to engagement (defined as specific, measurable, achievable, relevant and time bound). In light of this example will BCPP, and its constituent member funds, revise their engagement strategies immediately to a SMART based approach as currently they are woefully inadequate for professional organisations?

Response

Engagement activities undertaken on behalf of the 11 partner funds whether by the operating company’s team, external fund managers, Robeco acting for the operating company or the Local Authority Pension Fund Forum acting for the 11 partner funds all work with defined objectives, timescales, and approaches to escalation. As detailed in the collectively agreed Responsible Investment Policy, the best way to influence companies is through engagement; therefore, the Partnership does 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. For all engagements, SMART engagement objectives are defined.

If engagement does not lead to the desired result, then escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company’s shares.

Clearly the effectiveness of these approaches is a matter of opinion on which the Partnership would differ from the questioner.



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

2024/25 Municipal Year		2025/26 Municipal Year		2026/27 Municipal Year	
Date of Meeting	Review of Performance for Quarter Ended	Date of Meeting	Review of Performance for Quarter Ended	Date of Meeting	Review of Performance for Quarter Ended
Thursday 20 th June 2024 (Annual Meeting and Responsible Investment Workshop)	31 st March 2024	Tuesday 17 th June 2025 (Annual Meeting and Responsible Investment Workshop)	31 st March 2025	Tuesday 16 th June 2026 (Annual Meeting and Responsible Investment Workshop)	31 st March 2026
Thursday 26 th Sept. 2024	30 th June 2024	Thursday 25 th Sept. 2025*	30 th June 2025	Thursday 24 th Sept. 2026	30 th June 2026
Tuesday 12 th November 2024 (Responsible Investment Workshop) Virtual		Tuesday 18 th November 2025 (Responsible Investment Workshop) Virtual		Tuesday 10 th November 2025 (Responsible Investment Workshop) Virtual	
Tuesday 26 th Nov. 2024	30 th Sept 2024	Tuesday 25 th Nov. 2025	30 th Sept 2025	Tuesday 24 th Nov. 2026	30 th Sept 2027
Tuesday 25 th March 2025	31 st Dec 2024	Tuesday 24 th March 2026	31 st Dec 2025	Tuesday 23 th March 2027	31 st Dec 2027

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

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



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

Note:

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

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

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

Tuesday 21nd July 2026 to approve the report and accounts for 2025/26

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

Thursday – Friday 18th – 19th July 2024

Thursday – Friday 25th – 26th Sept 2025

Thursday – Friday 24th – 25th Sept 2026

In order to minimise travel and maximise the use of members' time the Joint Committee will take place on the Thursday morning before the commencement of the Conference (except 2024).



Border to Coast Joint Committee

Date of Meeting: 20th June 2024

Report Title: Partner Fund Non-Executive Directors

Report Author: George Graham – Director SYPA (for Senior Officer Group)

1.0 Executive Summary:

1.1 This report sets out details of a request from the operating company in relation to the terms of office of Partner Fund Non-Executive Directors.

2.0 Recommendation:

2.1 It is recommended that the Joint Committee consider its response to the request from the operating company to alter the term of office of one of the Partner Fund nominated Non-Executive Directors.

3.0 Issues and Consideration

3.1 The Partner Fund nominated Non-Executive Directors are under the arrangements agreed as part of the Governance Review able to serve up to two terms of three years without a break. The terms of the two current role holders are as follows:

- Cllr David Coupe's current term ends in September 2025, and he is eligible to stand for a further three-year term.
- Cllr John Holtby's second term comes to an end in September 2024 after which he will have served for 5 years consecutively following the extension of his second term in March 2023, which shareholders agreed with the Company would provide continuity and align with the newly agreed term length. An extension of one year ensured that the terms of the two Partner Fund Non-Executives did not coincide.

3.2 During 2025 the Company will need to appoint a new Chair for the Board following Chris Hitchen reaching the end of his second term (he will have completed 8.5 years at the end of this term). This is clearly a very significant appointment and the Company have asked whether it would be possible to further extend Cllr Holtby's term to cover this period. This reflects Cllr Holtby's significant experience over the last five years as a member of the company's Remuneration and Nomination Committee.

3.3 This raises several issues which the Joint Committee are asked to consider in coming to a view on whether or not to accept the Company's request.

- A one-year extension of Cllr Holtby's term which would keep his total term in line with the agreed maximum of 6 years would mean that two Partner Fund Non-Executives could retire at the same time, should Cllr Coupe not serve a second

term. A two-year extension, which would avoid this issue, would take Cllr Holtby beyond the currently agreed maximum term and risks being perceived as preferential treatment.

- While the proposal made by the Company is entirely rational it is not good practice to “tinker” with governance arrangements to in effect change the agreed rules to address one off issues, otherwise the purpose of rules is significantly undermined.
- Regardless of any statements or undertakings to the contrary this may be seen as setting a precedent for the extension of future terms where “exceptional” circumstances could be argued.

3.4 The Company acknowledges these points and has asked the Joint Company to note the following:

- The Company’s desire is to enable Partner Funds to consider the matter of the nomination of its representative on the Board in the full context of the Board’s agenda. If there is a suitable alternative candidate, the Board is supportive of the Joint Committee following the agreed governance approach.
- The Company notes the experience that Cllr Holtby has gained over the five years on which he has been a member of both the Board (and therefore deep understanding of the development alongside Partner Funds of the 2030 Strategy) and the Remuneration and Nominations Committee (hence experience in the recruitment of senior executives and NEDs of an FCA-regulated organisation). In the light of this, and if there is no suitable alternative candidate, the Board believes that the impact on Partner Fund outcomes of the governance risks outlined above in paragraph 3.3 are outweighed by the loss of Cllr Holtby’s experience and insight in the upcoming chair recruitment process.

3.5 A decision on this issue is a matter for the Joint Committee to determine and the Committee is asked to consider this request and come to a resolution to either reject the Company’s request or to support it, in which case the terms of such support will need to be defined.

Report Author:

George Graham - Director - South Yorkshire Pensions Authority.

ggraham@sypa.org.uk

01226 666439



Border to Coast Joint Committee

Date of Meeting: 20th June 2024

Report Title: Annual Elections

Report Author: George Graham (for Officer Operations Group)

1.0 Executive Summary:

1.1 This report sets out the process for election to the following roles:

- Chair and Vice Chair of the Joint Committee
- Non-Executive Director to sit on the Border to Coast Company Board
- Scheme Member Representative

2.0 Recommendation:

2.1 It is recommended that the elections to the specified roles should take place as set out in the body of this report.

3.0 Election Requirements

3.1 The terms of the Inter Authority Agreement (IAA) together with the Joint Committee's Constitution specify that the roles of Chair and Vice Chair should be elected annually. The arrangements specified also include a term limit in each role of two years (i.e., two years as Chair and two years as Vice Chair). As the June meeting of the Joint Committee is the Annual meeting it is appropriate to make arrangements now for the elections to these roles. The current Chair is not eligible to stand again for that role while the current Vice Chair will be term limited to one municipal year remaining for that role.

3.2 In the previous electoral cycle the Committee determined that the term of office for the Non-Executive Director – Cllr John Holtby of East Riding Pension Fund term will expire 30 September 2024 subject to the outcome of discussion elsewhere on this agenda.

3.3 Scheme Member Representatives – Nicholas Wirz's term will expire 29 September 2024 and Lynda Bowen's term will expire 29 November 2024.

3.4 Role profiles and other information relevant to the individual roles are contained in the appendices to this report.

4.0 Election Arrangements

- 4.1 The electorate for the Chair, Vice Chair and Non-Executive Directors are the members of the Joint Committee on a one Fund one vote basis. Each Fund will be invited to nominate a candidate at the meeting (or to declare that they are not nominating).
- 4.2 It is proposed to conduct the Chairs election at the end of the 20 June 2024 meeting. The Chair's position will be approved with the new Chair appointment to commence at the 26 September 2024 meeting. As in the previous election cycle the Single Transferable Vote system will be used.
- 4.3 Cllr George Jabbour has one municipal year remaining to the Vice Chair position so no election is necessary.
- 4.4 The Non-Executive Director (subject to the outcome of discussion of the item elsewhere on this agenda) will take place over the Summer on a one Fund one vote basis.
- 4.5 One scheme member representative will be elected over the summer with a further process to elect the second representative being held between November and March 2025 taking into account the expiry of current terms of office and meaning that both representatives do not cease to hold office at the same time.
- 4.6 The elections will be arranged by South Yorkshire as part of the secretariat function to the Joint Committee.

5.0 Recommendation

- 5.1 It is recommended that the election process as set out in the body of this report be adopted.

Report Author:

George Graham

ggraham@sypa.org.uk

01226 666439

Further Information and Background Documents:

Appendix 1: Role Profile for the Chair and Vice Chair

Appendix 2: Role Profile for the Non-Executive Director

Appendix 3: FCA and Companies Act requirements for Non-Executive Directors

Appendix 4: Border to Coast Process for Partner Fund Nominated Non-Executive Directors

Appendix 5: Role Profile for the Scheme Member Representatives

Role Profile for Chair and Vice-Chair

Overall

- Leading the BCPP Joint Committee to enable it to fulfil its purpose.
- To ensure an effective relationship between:
 - the Joint Committee and BCPP Limited
 - the Joint Committee and the partner funds
 - the Joint Committee and the external stakeholders/community
- Acting as a spokesperson and figurehead as appropriate.
- To supervise and support the Chief Executive and Non-exec Chair of BCPP Limited

Specifically

- Plan and prepare the BCPP Joint Committee meetings with others as appropriate.
- Chair BCPP Joint Committee meetings ensuring:
 - A balance is struck between time-keeping and space for discussions.
 - Business is dealt with and decisions made.
 - Decisions, actions and deliberations are adequately minuted.
 - The implementation of decisions is clearly assigned and monitored.
- Ensure that a successor to the post of Chair is found when the term of office is due to end and the new term begins.

Experience and Qualities

- A willingness to lead the partnership.
- A strong background/working knowledge of the LGPS.
- Recent experience of serving on an LGPS Pensions Committee.
- A working knowledge of asset strategy and implementation thereof.
- Possesses tact, diplomacy and powers of persuasion.
- Has the relevant skills and experience to run a meeting well.

Capacity

- The capacity to commit the time that will be required to undertake this role, including any travel that may be required to undertake duties associated with the role to represent BCPP nationally.

Role of the Chair

1. Chairing the Joint Committee Meeting

The Chair (or in his/her absence, the Vice-Chair) will be the person presiding over BCPP Joint Committee meetings. The Chair of the BCPP Joint Committee does not have a casting vote.

2. Election of the Chair

The Chair will be elected by the Joint Committee in accordance with an agreed procedure annually from among the Joint Committee Members and will receive regular briefings by the Chief Executive and Chair of the BCPP Company on current issues. They will also receive direct support from the Chair of the Officer Operations Group.

3. Responsibilities of the Chair

The Chair will have the following responsibilities:

- 3.1 to uphold and promote the purposes of the terms of reference and the inter authority agreement, and to interpret these when necessary during BCPP Joint Committee meetings;
- 3.2 to preside over meetings of the BCPP Joint Committee so that its business can be carried out efficiently and with regard to the rights of Members and the interests of the Partner Funds and their employers and members;
- 3.3 to ensure that the BCPP Joint Committee is a forum for the debate of matters of concern to Partner Funds and their employers and scheme members
- 3.4 to be the public face of the BCPP Joint Committee and to represent the Partner Funds at wider events as required

Non Executive Director Role Profile

Role Title: Non-Executive Director	
<p>Purpose of the role:</p> <p>To fully participate in ensuring the Board exercises effective leadership of and control over Border to Coast. To constructively challenge and contribute to the development of strategy, performance and the management of risk.</p> <p>A non-executive director is a member of the board of directors of an organisation, but not a member of the executive management team. They are not employees of the company, instead they have a contract for services. However, they do have the same legal duties, responsibilities and potential liabilities as their executive counterparts.</p> <p>About Border to Coast:</p> <p>Border to Coast Pensions Partnership is one of the largest pension pools in the UK. One of eight Local Government pools, Border to Coast oversees the investment of pensions assets. Our customers are at the heart of what we do; delivering long-term sustainable investment outcomes for our Partner Funds. We build long-term partnerships through working collaboratively, in a sustainable way and with integrity.</p> <p>Border to Coast is an FCA regulated investment company (“Border to Coast Pensions Partnership Ltd”) which manages the assets of its eleven Partner Funds through both internal and external management within a number of investment vehicles, including an Authorised Contractual Scheme.</p>	
Reports to: Chair of the Board	Level: n/a
Function: Board	Team: Board
Direct Reports: 0	SMCR: Certified
Role line of defence: n/a	
<p>Role Dimensions</p> <p>Budget Responsibility: n/a</p> <p>Number of employees in area of responsibility: 0</p> <p>Mandate: Board remit</p> <p>Prescribed Responsibilities (SMF): n/a</p> <p>Time Commitment: Expected to be 2-3 days per month, with availability for meetings, induction and training as required</p>	
Key Accountabilities	
<p>Role Specific Accountabilities</p> <ul style="list-style-type: none"> • Support the Chair and Executive Team in instilling the appropriate culture, values and behaviours in the boardroom and beyond • Provide independent oversight and scrutiny of Border to Coast including: <ul style="list-style-type: none"> • Provide an impartial and independent view of Border to Coast and its operations, removed from the day-to-day running of the business • Oversee the performance of the Board and Executive Team in meeting strategic objectives, including monitoring financial controls and risk management systems • Draw on wider experience, in other organisations, to provide the Board and Border to Coast Executive Team with a breadth of understanding and insight, including: 	

- Challenge and contribute to the development of the strategy of Border to Coast
- Support the development of a suitable succession plan for the Board and CEO
- Use specialist knowledge to input to decision making processes
- Promote a culture of responsible investment and stewardship throughout the organisation
- Commit to building a full understanding of Border to Coast, especially in those areas of the business with a significant level of risk
- Take time to understand various stakeholder needs and ensure these are addressed at Board level
- Chair Committees of Border to Coast (Independent NEDs; less likely for Partner Fund NEDs)

Skills, Knowledge and Experience

Skills, Knowledge and Qualifications

Essential

- Excellent inter-personal and communication skills
- Awareness of Border to Coast customers and their particular needs
- Understanding of LGPS investment requirements

Desirable

- Other corporate knowledge – health and safety, ICT strategy and systems, HR, information management and data protection

Additional

- Skills, knowledge and qualifications as required dependant on succession planning requirements as per the Board skills matrix

Experience

Essential

- Extensive experience of working as a non-executive director/Local Authority Committee Chair either within a public sector environment or FCA regulated business
- Excellent understanding of working across multiple stakeholders
- Ability to satisfy fitness and propriety test as a NED under the Senior Manager & Certification Regime (SM&CR) and to continue to satisfy test requirements and comply with FCA Conduct Rules

Desirable

- Asset management experience would be beneficial, gained either in the commercial or pension fund sectors
- Familiarity with the FCA Conduct Rules.

It is important to achieve an appropriate balance of experience amongst the non-executive directors

Version

Version No. and Date	2, 1 February 2022
Profile created/updated by	Rachel Elwell, Chief Executive Officer
Profile reviewed by people manager (name & role)	Chris Hitchen, Chair
Profile reviewed by HR (state name & role)	Peri Thomas, Head of HR

Role holder acknowledgement

I acknowledge receipt of this document; I have discussed it with the Chair and confirm it is an accurate reflection of my role and the responsibilities of it

Name	
Signature	
Date	

FCA and Companies Act requirements for Non-Executive Directors

FCA Requirements

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

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

Directors who hold Senior Management Functions or Controlled Functions are also subject to the FCA's individual conduct rules and standards:

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

The Companies Act Requirements

A Director should display possession of the knowledge, skill and experience that may reasonably be expected of a person carrying out the role of Director. It codifies the Directors' duties into law:

- To act within powers;

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

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

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

Border to Coast Process for Partner Fund Nominated Non-Executive Directors

- 1 The Border to Coast Board has requested that the following be shared with the Joint Committee to provide transparency and promote understanding for those considering standing for nomination.

Pre-Selection

- 2 Prior to beginning the selection process the Joint Committee and Nominees should satisfy themselves that those offering themselves for selection do not have an unacceptable conflict of interest if the person appointed continues with their role with the partner fund's pension committee and the Board of Border to Coast.
- 3 The applications from the Nominees should illustrate how they meet the requirements of the Job Description (Appendix 4), including the required minimum time commitment and the requirement to undertake regular training, some of which is regulatory and compulsory.
- 4 The applicants should be comfortable with the post-selection process, including the FCA approval process. The Appendix to the Job Description details the requirements expected of directors by the FCA and the Companies Act.
- 5 Applicants must be willing to share the results of their DBS check with Border to Coast and the members of its Board.

Post-Selection

1. The Board would expect to meet the nominated candidates to assess whether they are comfortable to recommend to the Shareholders that they approve the appointment of the proposed nominee as a director of the company.
2. The Board reserves the right to not recommend for approval if they believe that the nominees do not meet the role profile criteria.
3. To satisfy the FCA regime, the nominees must be credit checked, satisfy anti-money laundering checks and be cleared by the Data Barring Service. At present all NEDS must then be approved by the FCA (after December 2019 under the Senior Managers and Certification Regime (Core), Border to Coast will have to self-certify NEDs other than the Chair).
4. Nominees will need to provide personal information, including photo ID and two forms of address information to apply for the Data Barring Service checks. The process of gathering the data will be managed by the Border to Coast HR team. Once the credit reference, anti-money laundering and DBS checks are completed and shared with Border to Coast, the Border to Coast Compliance team will apply for FCA approval, up to December 2019, or afterwards, register the new NED with the FCA.

5. The Board must approve the recommendation of the nominees to the Shareholders for approval to be directors. The Board may approve conditional upon the successful completion of the checks referred to above and the FCA's approval.
6. Once the checks are successfully completed, and FCA and Board approval has been obtained, the Company Secretariat will issue a resolution seeking the consent of 75% of the shareholders in line with the requirements of the Shareholders' Agreement. The time-frame for the return of Shareholder approvals vary between each of our Partner Funds.
7. Once approved by the Shareholders, the nominees will be required to enter into a service contract with Border to Coast.
8. Once all of the above is completed, the Company Secretary will register the nominees on Companies House and update the Company's register of Directors and Secretaries. Only then, will the nominee become a director of Border to Coast. This process may take up to 3 months. Hence the term for new Partner Fund nominated NEDs is expected to run from the October following nomination.

Time Commitment and Remuneration

9. The Board also asked that further information be provided regarding the time commitment involved in the role. The Board is currently scheduled to meet six times a year, with Committee meetings 4-5 times a year in addition. Telephone meetings may occur where urgent matters are under consideration. The full meetings usually last about 5 hours; telephone meetings are shorter and are held to deal with urgent business. Typically meetings are held in the Company's office in Leeds. Papers are circulated a week before the meeting and reading time is required.
10. It is emphasised that individuals will sit as directors of the Company and provide expert input as such based on their personal knowledge and experience. They are not holding office as representatives of individual funds and will be expected to act in their view of the best interests of the Company.
11. Remuneration is approved by Shareholders on recommendation of the Remuneration Committee. The current level has been agreed at £15,000 pa.

Role Profile for Border to Coast Pensions Partnership Joint Committee – Scheme Member Representatives

Core Purpose of the Role

The core purpose of the role is two-fold:

1. To ensure that the members of the Border to Coast Joint Committee are made aware of the views of Scheme Members on the issues which they are considering.
2. To ensure that information on the decisions made by and the debates carried out within the Joint Committee are fed back to scheme members through their representatives on the local pension boards of the partner funds.

Term of Office and Selection

The scheme member representatives will be elected for a period of 3 years with no term limits.

Selection will be by election from amongst the scheme member representatives on the local pension boards of the partner funds on the basis of one fund one vote exercised by the scheme member representatives on the 11 Local Pension Boards.

Each Local Pension Board will be able to nominate one candidate from amongst its scheme member representatives.

Elections will be conducted using the single transferable vote system to ensure that the representative elected has a substantial basis of support across the 11 partner funds, and to ensure that the process of election can be carried out without the continual reference back that would be required using other systems, or with the permission of the Joint Committee.

Eligibility

To be eligible for this role an individual must be a member (active, deferred, or pensioner) of one of the partner funds within the Border to Coast Pensions Partnership. On ceasing to be a Member of one of the Partner Funds, or on ceasing to be a Member of one of the Partner Funds' Local Pension Boards an individual will become ineligible and will cease to hold office.

Commitment

In addition to any commitment to the work of the Local Pension Board of which they are a member, a Scheme Member representative on the Border to Coast Joint Committee will be expected to attend the meetings of the Joint Committee (with a minimum 4 per year) and the Border to Coast annual conference (2 days per year). The representative may choose additionally to spend time familiarising themselves with how the Company runs its affairs.

Individuals undertaking the role will be expected to formally feedback in writing to the local pension boards of the partner funds following each Joint Committee meeting, and to produce an annual report which can be made available to the members of all the participating funds. Any member of a local pension board has a statutory obligation to maintain an appropriate level of knowledge and understanding of the issues with which the Board is dealing. It is expected that in fulfilling this obligation any scheme member representative will have sufficient knowledge and understanding to participate in the work of the Joint Committee.

Conflicts of Interest

A Scheme Member representative, as a member of a local pension board, should have completed a register of interests and be familiar with issues where a conflict of interest might arise.

As a member of the Joint Committee a Scheme Member representative must disclose the fact that they have a conflict of interest in relation to any item where they feel this is the case. The relevant officer will provide advice as to whether the representative may participate in debate, stay in the room and not participate or should leave the meeting for therelevant item. These rules apply equally to councillors.

Confidentiality

The Joint Committee operates under the terms of the Local Government Acts and some items which it discusses are discussed in private, for example where they concern the details of commercial contracts with third parties.

Scheme Member representatives will be present for all the Joint Committee's discussions whether in public or in private and will receive all papers and be able to contribute to all debates, unless precluded from doing so by a conflict of interest.

As is the case with Councillors, Scheme Member representatives will be limited in what they can disclose in relation to items discussed in private when reporting back to stakeholders. Appropriate support and guidance is available from Fund officers on these issues. Equally Scheme Member representative(s) should not engage in widespread consultation for example with members of Partner Funds' Local Pension Boards, on issues due to be considered in private before meetings.

Expenses

Reasonable travel expenses in association with attendance at meetings of the Joint Committee and attendance at the Border to Coast Annual conference will be re-imbursed from the Joint Committee annual budget. It is considered to be appropriate to cover travel expenses as the Scheme Member representatives will be considered to be acting on behalf of the scheme members from all 11 funds.



Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: 20 June 2024

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, both direct and through our involvement in collaborations.
- 1.3 Peak AGM voting season is well underway. Due to our strengthened assessment framework on climate risk, we have again voted against the Chair of several oil and gas companies that are not meeting our expectations.
- 1.4 We continue to respond to consultations related to responsible investment and submitted a response to the second iteration of the Net Zero Investment Framework. The FRC will be consulting on the UK Stewardship Code later this year and we have participated in early outreach sessions.
- 1.5 The quarterly stewardship and voting reports produced by Border to Coast and Robeco for the quarter ended 31st March 2024 can be found on our [website](#).

2 Recommendations

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

3 Engagement update

- 3.1 Engagement is ongoing to support delivery of the four priority engagement themes through a mix of direct company engagement by the RI and Investment Team,

engagement conducted by Robeco and external managers, and through collaboration with other institutional investors.

- 3.2. In collaboration with RLAM and with the support of the London School of Economics, we are engaging four UK banks on the integration of Just Transition into their net zero plans (HSBC, Lloyds, Barclays and NatWest). We attended the NatWest AGM in April to draw the Board's attention to the issue and we are in the process of developing a set of investor expectations for the banking sector, which we will use to engage and assess the bank's emerging Just Transition plans. Engagement is continuing.
- 3.3. TotalEnergies is a priority oil and gas company under direct engagement. We held a constructive meeting in January to discuss current medium-term targets and any plans for improvement. We explained that Paris-aligned medium-term emissions reduction targets covering Scope 3 is a priority indicator for us with implications as per Border to Coast's climate voting and engagement escalation policies. The Company is performing well on renewables development, methane emissions reduction, and capex disclosure. However, the absence of a medium-term absolute emissions reduction target for gas production means TotalEnergies does not currently meet our expectations in this area. Engagement with TotalEnergies is continuing.
- 3.4. We continue to support the Rathbones led 'Votes against Slavery' initiative, which in 2024 is engaging 40 FTSE 350 companies that are not disclosing in compliance with the Modern Slavery Act. Of the companies we own only three are not currently compliant. Engagement is continuing ahead of company AGMS; non-compliance will result in a vote against the Annual Report and Accounts.
- 3.5. We are also continuing to support the CCLA led 'Find it, fix it, prevent it' engagement with FTSE 250 construction companies on the issue of Modern Slavery. We attended a roundtable co-hosted by CCLA and the Cabinet Office and attended by construction companies, shareholders, and NGOs working on modern slavery, to discuss the challenges and best practice.
- 3.6. We continue to support the Workforce Disclosure Initiative which aims to improve corporate transparency and accountability on workforce issues and provide companies and investors with comprehensive and comparable data. The initiative is supported by 60 institutional investors with over \$9.5 trillion in assets under management. Data is collected through an annual survey following engagement by investors; last year 170 companies responded. We will again engage with companies to encourage completion of the survey and have identified 19 companies that we will be contacting.

4 Voting

- 4.1 We are in the midst of peak voting season and the revised climate risk assessment framework has been implemented. A weekly update on the watchlist, which constitutes 39 companies classed as priority companies, is provided to Partner Funds with all voting recommendations. All priority companies are notified of our voting decisions prior to the AGM.
- 4.2 We are again voting against the Chair of oil and gas companies that are not meeting our assessment framework which includes Transition Pathway Initiative (TPI) scores

and meeting Climate Action 100+ Net Zero Benchmark indicators. We are also voting against the Chair of the sustainability committee at banks not meeting the climate voting framework.

- 4.3 Up to the end of May we have voted against 18 oil and gas company Chairs and four bank sustainability committee Chairs. We have publicly pre-declared our voting intentions at six AGMs this year (up from three in 2023): Conoco Phillips, Phillips 66, Shell, TotalEnergies, Chevron, and Glencore. Details can also be found on our website.

5 RI strategy

- 5.1 We have a 3-year RI strategy developed to reflect the shift in best practice covering four areas: integrating ESG, active ownership, industry engagement, and reporting and governance.
- 5.2 The FRC has launched a review of the 2020 UK Stewardship Code to ensure that the Code's principles are still driving the right outcomes for investors without creating burdens on both issuers and signatories. The revised Code will likely be published in early 2025 and the FRC are currently engaging with issuers, asset managers, asset owners and service providers. We have attended a roundtable for asset owners hosted by the FRC.
- 5.3 The consultation on the second iteration of the Net Zero Investment Framework (NZIF2.0) was published at the end of March. NZIF is the most widely used guidance framework by investors that have made net zero commitments. We have used NZIF in developing our Net Zero Implementation Plan (Net Zero Roadmap) and responded to the consultation which closed at the end of April.

6 Reporting

- 6.1 We are in the process of drafting and designing our annual reports; the Annual RI & Stewardship Report which will, once published, be submitted to the FRC for the October submission window for the Stewardship Code; and the Climate Change Report which covers progress against our Net Zero Roadmap and is in line with the TCFD recommendations and the FCA's regulatory requirements. Following Board approval, both will be shared with Partner Funds before being published in July/August.
- 6.2 Reports on RI and stewardship are produced and published on the website to publicly disclose our activities in this area. The quarterly stewardship reports produced by Border to Coast and Robeco, along with the voting reports for the quarter ended 31st March can be found on our [website](#).

7 Risks

- 7.1 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering our partner funds' objectives. There may be reputational risk if we are perceived to be failing in this area and our management of climate risk. To mitigate the risk, we have a 3-year RI strategy which is developed to reflect the shift in best practice. Reports on RI and stewardship are produced and published on the website to publicly disclose our activities in this area.

7.2 There is a risk that insufficient resources are in place to realise the Responsible Investment strategy. To mitigate this risk the resourcing of the RI team has increased, and support is also provided by the Communications and Customer Relationship Management teams.

8 Conclusion

8.1 Implementation of our engagement plan to support the priority engagement themes is progressing with direct engagement, collaborative engagement and that conducted by Robeco.

8.2 Peak voting season has seen us continue with our escalation approach by pre-declaring at several AGMs again this year.

8.3 We continue to engage on policy issues through various forums and by responding to consultations.

8.4 The regular quarterly reports on stewardship (voting and engagement) which detail our activities as an active steward have been published. All reports can be found on the website.

8.5 The Committee is asked to note the report.

9 Author

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

3rd June 2024

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Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: 20 June 2024

Report Title: Market Review

Report Sponsor: Joe McDonnell (CIO)

1 Executive Summary

1.1 This report provides an overview of the macroeconomic and market environment and the medium-term investment outlook.

2 Recommendations

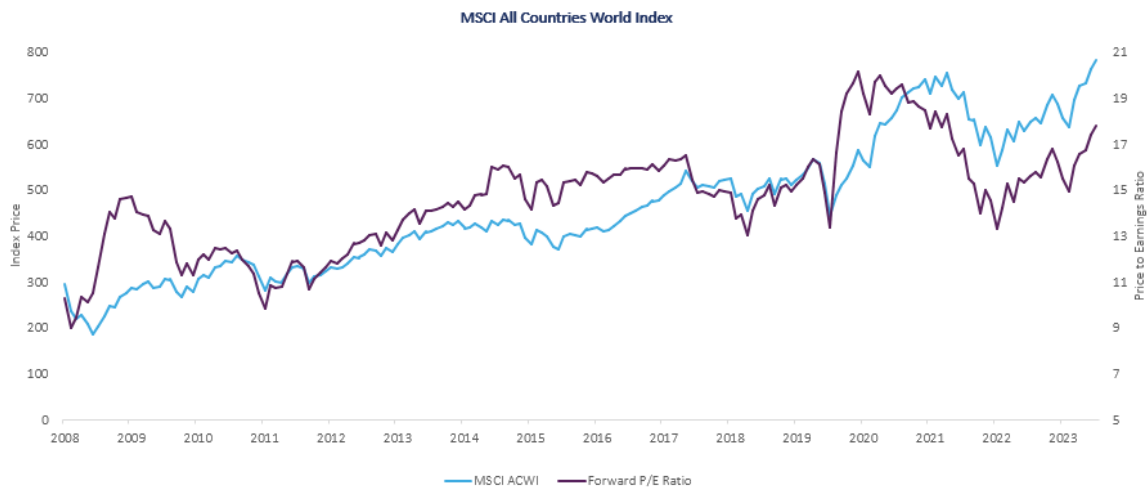
2.1 That the report is noted.

3 Markets & Macroeconomic environment

3.1 Resilient economic data in Q1 confirmed the US economy grew by more than expected during Q4 2023, while survey data from the composite Purchasing Managers Index (PMI) remained firmly in expansionary territory, boosting investor sentiment. Macroeconomic data elsewhere around the world also showed encouraging signs, further supporting the prospect of a soft landing. Against this backdrop, global equities posted strong returns, with the MSCI ACWI up +9.6% (GBP terms) during the first quarter. Q1 2024 was a more challenging period for fixed income. A combination of stickier inflation prints, resilient economic activity, and the Fed backpedalling somewhat on its dovish December tone, drove negative returns for sovereign bonds. As prospects of aggressive rate cuts faded, the yield of the Bloomberg Global Aggregate increased to 3.7%, which led to negative returns of -2.1%. Other interest rate sensitive asset classes, such as real estate, also suffered on the back of higher interest rates. The Global REITs Index ended the quarter down -1.1% (GBP terms). In commodity markets the fall in gas prices was more than offset by a rise in oil prices on the back of ongoing supply cuts and geopolitical tensions.

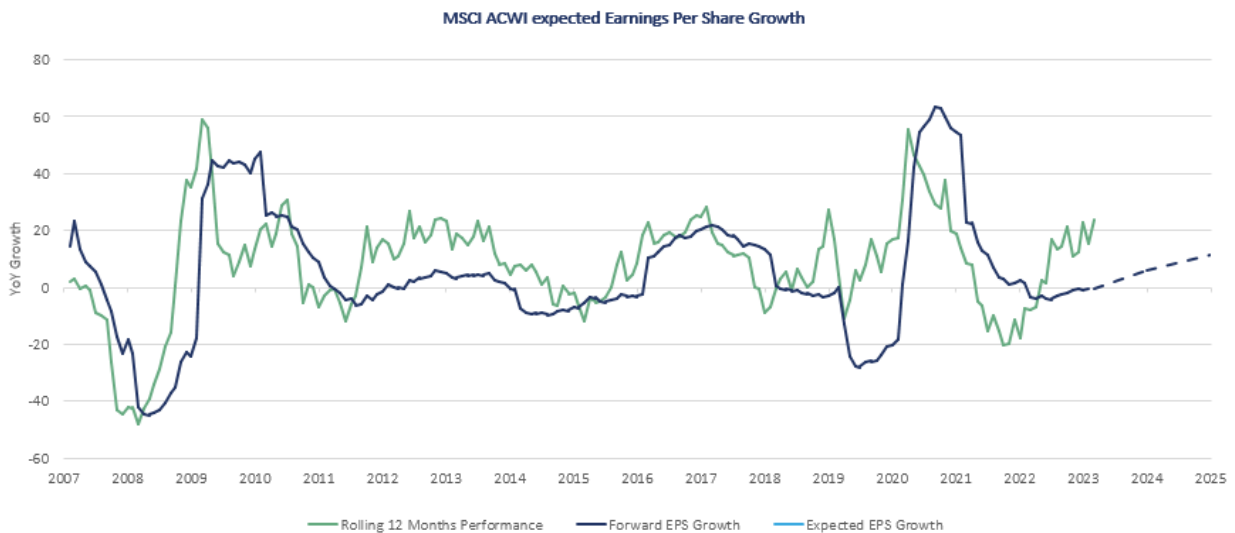
3.2 Developed market equities had a strong first quarter thanks in large part to the performance of growth stocks, which returned +10.7% (GBP terms). This was especially true in the US, where the S&P 500 rose +11.8% (GBP terms), outperforming most of its peers, driven once again by the stellar performance of the 'magnificent seven' stocks. The Japanese TOPIX index ended up +10.5% (GBP terms) in the first three months of the year, despite the Bank of Japan beginning the normalization of its monetary policy in March. The central bank announced an end to its negative interest rate policy, yield curve control, and its purchases of equity exchange traded funds and real estate investment trusts. European stocks did lag the US and Japan but cheaper valuations

and a potential shrinking of the economic growth gap relative the US are making the regional market look more attractive.



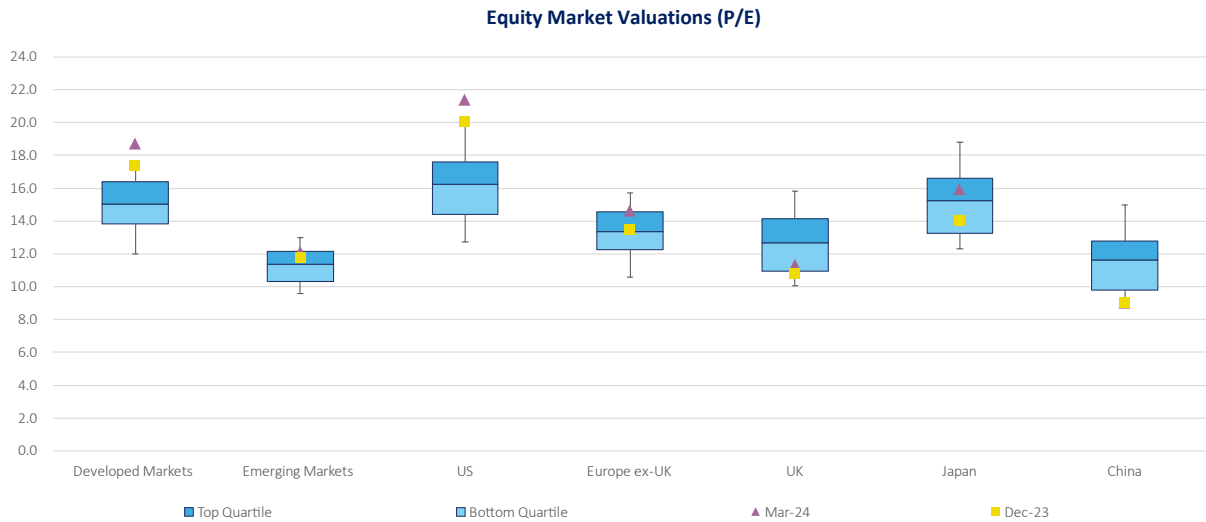
Source: MSCI, Bloomberg, Border to Coast.

3.3 The broadly healthy global nominal GDP environment is a tailwind for earnings. The typical pattern is for current year earnings estimates to be revised lower as time goes on with over-optimistic expectations being marked to market. As earnings have been relatively robust, equity markets have powered ahead. Nevertheless, there is now a growing differential between the performance of equity markets and earnings growth – with the former pushing ahead. This does leave the market vulnerable in the second half of 2024.



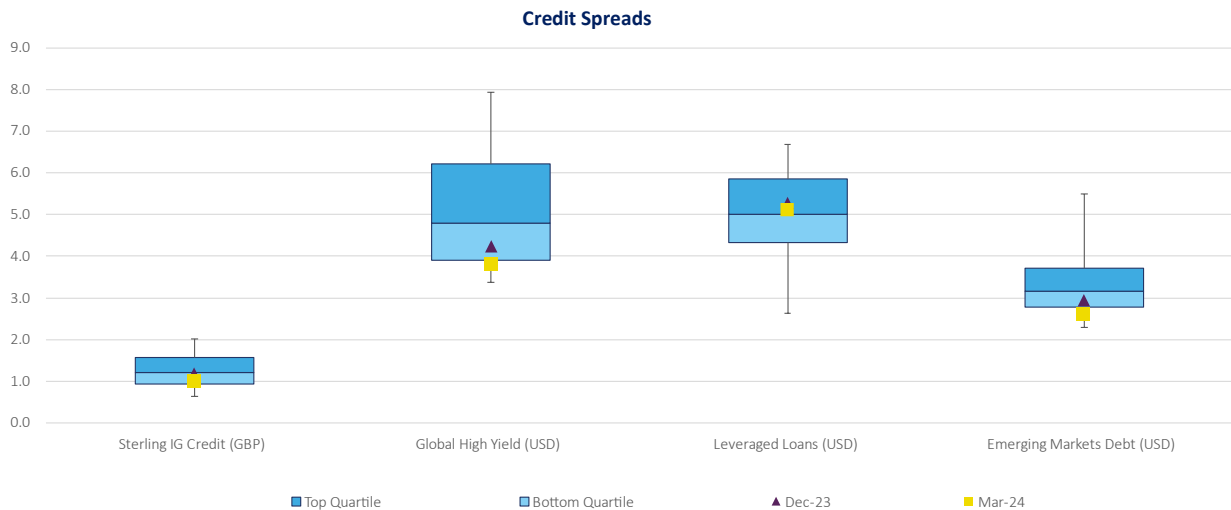
Source: MSCI, Bloomberg, Border to Coast.

3.4 Equity market valuations are now high but there are notable differences in regional blocks. The hunt for positive growth momentum and attractive valuation is starting to shift investors' focus away from US and towards more regionally diversified exposure, where the scope for catch up appears greater. UK and China are decidedly cheaper than the US Market.



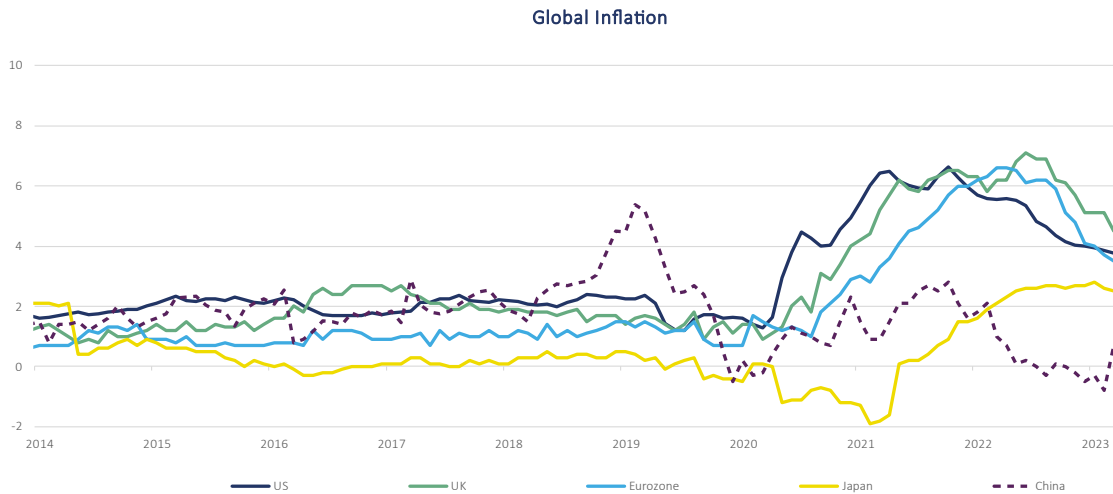
Source: MSCI, Bloomberg, Border to Coast. Data shown from June 2003 to December 2023. Whiskers show the top and bottom decile of historical spreads.

3.5 Fixed Income Markets continue to offer very good yields, however credit spreads tighten further over the quarter. This tightening helped to offset the sell-off we saw in developed-market sovereign rates as higher yielding credit markets delivered positive returns over the quarter. In an environment where interest rates are likely to stay higher for longer, we continue to see support for these asset classes as investors continue to diversify their equity exposure.



Source: Bloomberg, Border to Coast. Note: Data shown since 31 August 2001 to 31 December 2023. Whiskers show the top and bottom decile of historical spreads.

3.6 Improving manufacturing data and intensified geopolitical tensions in the Middle East resulted in higher oil prices providing a cyclical uplift to headline inflation. Taking these two factors into account the pace of disinflation has halted forcing developed central banks to push rate cuts further into the future.



Source: Bloomberg, Border to Coast.

4 Looking Forward

- 4.1 Economic conditions are solid and yet global central banks are still embarking on a modest synchronised easing cycle. Global growth is broadening out across regions and profits are holding up much better than expected. This remains a uniquely positive backdrop for risk assets.
- 4.2 This environment is not without its risks as equity valuations and credit spreads are quite elevated relative to their own history. However, the new interest rate regime is offering investors the ability to diversify to a broader set of asset classes.
- 4.3 The high level of capital market commitments from Partner funds to Alternatives 2c and Climate Opportunities 2 & UK Opportunities 1 confirms the very strong desire to continue to diversify into private markets.

5 Author

Joe McDonnell (CIO)

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7 June 2024

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