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 relevantregister.

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

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.