



Pension Fund Committee

Date Thursday 5 December 2019
Time 10.00 am
Venue Main Hall, Town Hall, Market Place, Durham,
DH1 3NJ

Business

Part A

**Items during which the Press and Public are welcome to attend.
Members of the Public can ask questions with the Chairman's
agreement.**

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 12 September 2019 and the Special Meeting held on 4 October 2019 (Pages 5 - 16)
4. Feedback from Local Pension Board
5. Overall Value of Pension Fund Investments to 30 September 2019 (Pages 17 - 22)
6. Performance Measurement of Pension Fund Investments to 30 September 2019 (Pages 23 - 36)
7. Short Term Investments for the Period Ended 30 September 2019 (Pages 37 - 38)
8. Border to Coast Pensions Partnership Responsible Investment Policy (Pages 39 - 70)
9. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration

10. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

11. The Minutes of the Meeting held on 12 September 2019 and the Special Meeting held on 4 October 2019 (Pages 71 - 84)
12. Internal Audit Progress Report to 30 September 2019 (Pages 85 - 90)
13. Competition and Markets Authority Consultant Objectives (Pages 91 - 126)
14. Investment Strategy Review Update (Pages 127 - 130)
15. Report of the Pension Fund Adviser (Pages 131 - 172)
16. Report of the Pension Fund Independent Investment Adviser (Pages 173 - 202)
17. Border to Coast Pensions Partnership Update
18. Report of Aberdeen Standard (Pages 203 - 228)
19. Report of Alliance Bernstein (Pages 229 - 238)
20. Report of BlackRock (Pages 239 - 248)
21. Report of BNY Mellon (Walter Scott) (Pages 249 - 262)
22. Report of CBRE (Pages 263 - 278)
23. Report of Mondrian (Pages 279 - 284)
24. Report of Royal London (Pages 285 - 288)
25. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Lynch

Head of Legal and Democratic Services

County Hall

Durham

27 November 2019

To: The Members of the Pension Fund Committee

County Council Members:

Councillors M Davinson, O Temple, J Atkinson, C Carr, J Carr, J Lethbridge, S Hugill, B Kellett, J Shuttleworth, W Stelling and M Wilson

Darlington Borough Council Members

Councillors C Johnson and S Durham

Scheme Member Representatives

A Delandre and J Taylor

Further Education Colleges Representative

A Broadbent

Scheduled Bodies Representative

(vacant)

Admitted Bodies Representative

(vacant)

Advisers:

County Council Officers

T Collins, J Hewitt, H Lynch, P Cooper, B White

Independent Advisers

C Arbuckle – Mercer

S Dickson – Mercer

A Fletcher – MJ Hudson Allenbridge

Investment Managers

Aberdeen Standard

Alliance Bernstein

BlackRock

BNY Mellon (Walter Scott)

CBRE

Mondrian

Royal London

Staff Observers

Unison – N Hancock

GMB – L Timbey

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in County Hall, Durham on
Thursday 12 September 2019 at 10.00 am

Present:

Councillor M Davinson (Chair)

Members of the Committee:

Councillors O Temple (Vice-Chair), J Atkinson, C Carr, J Carr, J Lethbridge,
S Hugill, J Shuttleworth and M Wilson

Also Present:

Scheme Member Representative

Anne Delandre

Further Education Colleges Representative

Andy Broadbent

Council Advisers

John Hewitt – Corporate Director of Resources

Paul Cooper – Pensions Manager

Beverley White – Finance Manager

Independent Advisers

Sandy Dickson – Mercer

Anthony Fletcher – MJ Hudson

Observers

Neville Hancock – UNISON and Local Pension Board

David Clegg - GMB

1 Apologies for Absence

Apologies for absence were received from Councillor B Kellett, Pensioner representative J Taylor, and Darlington Borough Councillors C Johnson and S Durham.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 6 June 2019 were agreed as a correct record, subject to amendments to minutes numbered 15, 17 and 22 as reported in Part B.

4 Feedback from Local Pension Board

There was no feedback from the Local Pension Board.

5 Overall Value of Pension Fund Investments to 30 June 2019

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund's investments as at 30 June 2019, the movement in the cash balance during the last four quarters and the projected cash flow position up to 30 September 2020 (for copy see file of Minutes).

Members were provided with an update in relation to the McCloud judgement which ruled that changes made by the Government to public sector pension schemes were unlawful on the grounds of age discrimination. Members were informed that the Guaranteed Minimum Pension equalisation may impact upon the Pension Fund's liabilities by up to 1% which would be addressed during the actuarial valuation process.

Resolved:

That the information contained in the report be noted.

6 Performance Measurement of Pension Fund Investments to 30 June 2019

The Committee considered a report of the Corporate Director of Resources which provided Members with an overview of the performance of the Fund to 30 June 2019 (for copy see file of Minutes).

Resolved:

That the information contained in the report produced by JP Morgan be noted.

7 Short Term Investments for the Period Ended 30 June 2019

The Committee considered a report of the Corporate Director of Resources which provided information on the performance of the Pension Fund's short-term investments as at 30 June 2019 (for copy see file of Minutes).

Resolved:

That the position at 30 June 2019 regarding the Pension Fund's short-term investments where the Pension Fund's surplus cash holding was £42,646 million and £78,697 net interest was earned in the three month period, be noted.

8 Internal Audit Progress Report to 30 June 2019

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2019 to 30 June 2019 as part of the 2019/2020 Internal Audit Plan (for copy see file of minutes).

Resolved:

That the work undertaken by Internal Audit during the period ending 30 June 2019 be noted.

9 Audit Completion Report 2018/2019 - Durham County Council Pension Fund

The Committee considered a report of the Corporate Director of Resources which asked the Committee to note the contents of the report prepared by the Council's External Auditor (Mazars) as a result of their audit of the Pension Fund's accounts for the year ended 31 March 2019 (for copy see file of Minutes).

Sharon Liddle of Mazars presented the Audit Completion Report, and was pleased to report that the audit was completed in advance of the 31 July deadline. The work undertaken on the two risks identified in the Audit Strategy Memorandum (management override of control and valuation of unquoted investments) provided assurance and there were no material

issues to bring to the Committee's attention. There were no material adjustments required to the financial statements.

Councillor Atkinson queried the internal control recommendation regarding IT access and periodic review of active directory accounts, and was informed that systems had now been improved since this was raised last year.

Councillor Lethbridge made reference to the Risk Register which should be reviewed annually in accordance with the Committee's Terms of Reference. The Member was advised that although it had not been reported to the Committee, Pension Fund Risks had been reviewed in line with the scheduled timescale by the Risk Manager/Pensions Manager. The Committee had reviewed the risks in March 2019 and would be reported annually going forward.

Resolved:

That

- a) the External Auditor's report following the audit of the Statement of Accounts for the year ended 31 March 2019, including the summary of misstatements detailed in section 4 of the report, be noted;
- b) the content of the Management Representation Letter (Appendix A), Auditor's Report on the Council's Statement of Accounts (Appendix B) and the Consistency Report to be included in the Pension Fund Annual report (Appendix C), be noted.

10 Pension Fund Accounts for the Year Ended 31 March 2019

The Committee considered a report of the Corporate Director of Resources which presented the audited Pension Fund Accounts for the year ended 31 March 2019 which had been approved in accordance with the statutory deadlines and the Council's Constitution (for copy see file of Minutes).

Resolved:

That the contents of the Pension Fund's financial statements for the financial year ended 31 March 2019 at Appendix 1 of the report be noted.

11 Pension Fund Committee Training Needs Self Assessment

The Committee considered a report of the Corporate Director of Resources which provided the outcome of the self-assessment training needs analysis carried out by Members of the Committee and set out a proposal to address the needs identified (for copy see file of Minutes).

Members were provided with a copy of the self-assessment questionnaire and noted the wide range of knowledge areas the proposed training covered. Members appreciated the knowledge and understanding required but felt that the training should focus on equipping them with the necessary skills to fulfil the key roles of the Committee, such as challenging investment performance and risk monitoring.

The Committee was informed that the purpose of the questionnaire was to establish the skills Members already had and provide training in specific areas where a need was identified.

Resolved:

That

- a) Members complete the self-assessment questionnaire included in Appendix 1 and return to the Pensions Manager;
- b) training be arranged by the Pensions Manager as necessary based upon the training needs identified;
- c) the training needs analysis questionnaire be recirculated to Members after the training session for completion and review.

12 Exclusion of the Public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

13 Minutes

The Minutes of the meeting held on 6 June 2019 were agreed as a correct record, subject to amendments to minutes numbered 15, 17 and 22 as reported in Part B.

14 Border to Coast Pensions Partnership Update

The Committee received an update from Andrew Stone of the Border to Coast Pensions Partnership (for copy see file of Minutes).

Following discussion it was **RESOLVED** that

- a) the update provided by BCPP be noted;
- b) Officers discuss with BCPP whether the deadline for a decision on investment in private credit could be extended beyond 4 October 2019;
- c) a training session be arranged to enable Members to make an informed decision about investment in private credit at a Special meeting of the Committee. The training session and Special meeting be arranged to meet BCPP's final deadline.

15 Investment Strategy Progress Update

The Committee considered a report of the Corporate Director of Resources which provided an update on progress made towards implementing asset allocation decisions (for copy see file of Minutes).

As discussed at minute numbered 14, allocation to private credit would be considered at a Special meeting of the Committee.

John Hewitt assured Members that the Team had the necessary skills set to progress implementation of the Strategy.

Resolved:

That the recommendations in the report be approved.

16 Report of the Pension Fund Adviser

The Committee considered the report of the Independent Adviser, Sandy Dickson of Mercer (for copy see file of Minutes).

Resolved:

That the information given be noted.

17 Report of the Pension Fund Independent Adviser

The Committee considered a report of the Independent Investment Adviser, Anthony Fletcher (for copy see file of Minutes).

Resolved:

That the information given be noted.

18 Report of Aberdeen Standard

Consideration was given to a report from Aberdeen Standard which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

19 Report of Alliance Bernstein

Consideration was given to a report from AB which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

20 Report of BlackRock

Consideration was given to a report of the Managers in attendance from BlackRock which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

21 Report of BNY Mellon (Walter Scott)

Consideration was given to a report from BNY Mellon (Walter Scott) which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

22 Report of CBRE Global Investment Partners

Consideration was given to a report from CBRE Global Investment Partners which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

23 Report of Mondrian Investment Partners Ltd

Consideration was given to a report from Mondrian Investment Partners Ltd which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

24 Report of Royal London

Consideration was given to a report from Royal London which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Council Chamber - County Hall, Durham on **Friday 4 October 2019 at 1.00 pm**

Present:

Councillor M Davinson (Chair)

Members of the Committee:

Councillors O Temple (Vice-Chair), J Atkinson, C Carr, J Carr, J Lethbridge, S Hugill, W Stelling and M Wilson

Scheme Member Representative

John Taylor

County Council Advisers

John Hewitt – Corporate Director of Resources

Paul Cooper – Pensions Manager

Beverley White – Finance Manager

Investment Adviser

Andy Wallis – Mercer

Also Present:

Sharon Liddle - Mazars

1 Apologies for Absence

Apologies for absence were received from Durham County Councillors B Kellett and J Shuttleworth, Darlington Borough Councillors S Durham and C Johnson, Further Education Colleges Representative Andy Broadbent and Pensioner Representative Anne Delandre.

2 Declarations of interest

There were no declarations of interest.

3 Exclusion of the Public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

4 Private Credit

The Committee considered a report of the Corporate Director of Resources which sought approval for investing in Private Credit with Border to Coast Pension Partnership (BCPP) (for copy see file of Minutes).

Resolved:

That the recommendations in the report be approved.

Pension Fund Committee

5 December 2019

**Overall Value of Pension
Fund Investments to 30 September 2019**



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

1. To provide an update to Members on the:
 - (a) overall value of the Pension Fund's investments at 30 September 2019;
 - (b) movement in the cash balance during the last four quarters; and
 - (c) projected cash flow position up to 31 December 2020.

Executive Summary

2. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. At 30 September 2019 the value of the Fund was £3.13 billion and the cash balance held in the Durham County Council Pension Fund bank account was £29.883 million. Fund Managers also held cash of £25.865 million at that date.
3. The cash flow forecast detailed in Appendix 2 indicates net cash outflows, excluding cash withdrawals from fund managers, in future quarters of between £9 million and £11 million. A recovery of £20 million from Fund Managers in the quarters ending 31 December 2019, 30 June 2020 and 31 December 2020 has been included in the forecast.

Recommendation

4. Members are asked to note the information contained in this report.

Background

Value of the Pension Fund

5. Reports from the seven appointed Fund Managers, namely:

- Aberdeen Standard
- AB
- BlackRock
- Bank of New York Mellon (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda.

6. The value of the Fund at 30 September 2019 was £3.130 billion compared to £3.034 billion at 30 June 2019. This is an increase of £95.421 million (or 3.14%) in the second quarter of 2019/20.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

7. New investment money is allocated to Fund Managers when the Pension Fund has cash which is not required to be available as a working cash balance, for example to pay pensioners or fees.
8. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Fund Managers.
9. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 30 September 2019 the cash balance held in the Durham County Council Pension Fund bank account was £29.883 million. In addition to this, not included in this table, Fund Managers were holding cash of £25.865 million at 30 September 2019.
10. During the quarter ending 30 September 2019 the second private equity drawdown of £0.749 million and the first infrastructure drawdown of £0.555 million was made to BCPP.
11. The transition of global equity began with £627.588 million being transferred from Bank of New York Mellon to BCPP on the 29th September. At the beginning of October transfers of £529.705 million

from Aberdeen and a further £61 million from Blackrock were made to BCPP, resulting in the Fund investing 40% of its total portfolio in global equity, in accordance with the previously agreed target allocation.

Cash Flow Forecast 2019/20

12. Appendix 2 shows the projected cash flow for the Pension Fund for the period September 2019 to December 2020. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.
13. The forecast includes the recovery of £20 million from Fund Managers in the quarters ending 31 December 2019, 30 June 2020 and 31 December 2020. Without the recovery of the aforementioned amounts, the Pension Fund is estimated to be in a cash negative position in all quarters to 31 December 2020.
14. The forecast indicates net cash outflows in future quarters of between £9 million and £11 million. The size of the outflows are exacerbated due to the early receipt of Durham County and Darlington Borough Councils' deficit contributions in April 2017, the impact of which is an apparent reduction in future contributions receivable of £6.598 million per quarter.
15. The following assumptions have been used in the cash flow forecast:
 - (a) Annual investment income receivable is estimated to be £26.5 million and profiled to be received as follows:

(i)	Quarter ended 31 December 2019	26%
(ii)	Quarter ended 31 March 2020	29%
(iii)	Quarter ended 30 June 2020	21%
(iv)	Quarter ended 30 September 2020	24%
 - (b) Increases in contributions have been included in line with actuals, until the new employer contribution rates resulting from the 2019 actuarial valuation are made available.
 - (c) Transfer values due in are estimated at £1.25 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
 - (d) Pensions increase applied is the estimated pension indexation rate of 1.7% for 2020 – 2021 with effect from 1 April 2020.

- (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.25 million per quarter, from 1 April 2019. This figure will alter if there are large numbers of retirements from the employing authorities. It is anticipated however that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.
 - (f) Payable paysheets are forecast on the basis of the previous year's profile and adjusted for known one-off payments, although this can be the most volatile figure as it includes payments of lump sums and fees to managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.
16. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and is refined to take any new information into account as it becomes available.

Fund Rebalancing

17. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement. It is also the means by which cash is moved to or from managers as a consequence of the cash flow forecasts.
18. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – For the period 1 October 2018 to 30 September 2019

Quarter Ended	30.12.18		31.03.19		30.06.19		30.09.19	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	13,810,000	13,958,692	13,950,000	14,096,247	13,950,000	14,914,521	15,100,000	15,268,926
Contributions - Other	9,055,000	9,655,168	9,600,000	9,821,075	9,760,000	10,469,144	9,950,000	10,480,363
Unfunded pensions recharges	1,170,000	1,101,373	1,120,000	1,124,595	1,140,000	1,007,809	1,080,000	1,220,458
Transfer Values	1,250,000	1,024,338	1,250,000	805,197	1,250,000	832,205	1,250,000	2,092,081
Other income	2,000,000	1,126,820	2,000,000	3,311,968	2,000,000	1,563,888	2,000,000	1,070,689
Funds recovered from Managers	0	26,000,000	0	0	20,000,000	20,000,000	0	0
Interest on short term investments	50,000	65,169	85,000	104,769	85,000	78,697	84,000	84,864
Total Cash Inflow	27,335,000	52,931,560	28,005,000	29,263,850	48,185,000	48,866,264	29,464,000	30,217,381
Cash Outflows								
Payroll Paysheets	25,750,000	25,727,276	26,000,000	25,824,012	26,850,000	26,499,473	27,100,000	26,802,176
Payables Paysheets (incl. Managers' fees)	12,000,000	13,631,809	12,000,000	11,429,632	12,000,000	12,642,023	12,000,000	14,159,792
Funds transferred to Managers	0	0	5,600,000	0	5,900,000	3,640,602	0	1,303,736
Other Expenditure	1,000	790	1,000	794	1,000	1,284	1,000	1,293
Total Cash Outflows	37,751,000	39,359,875	43,601,000	37,254,438	44,751,000	42,783,382	39,101,000	42,266,998
Net Cash Inflow / (-) Outflow	-10,416,000	13,571,685	-15,596,000	-7,990,588	3,434,000	6,082,882	-9,637,000	-12,049,617
Balance at Bank (opening)		32,948,356		45,870,405		37,289,542		42,645,995
Balance at Bank (closing)		45,870,405		37,289,542		42,645,995		29,882,861

Projected Cash Flow (including forecast dividends receivable by Fund Managers) - for the period 1 October 2019 to 31 December

Quarter Ended	31.12.19	31.03.20	30.06.20	30.09.20	31.12.20
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	15,250,000	15,250,000	15,250,000	15,250,000	15,250,000
Contributions - Other	10,480,000	10,480,000	10,480,000	10,480,000	10,480,000
Unfunded pensions recharges	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000
Transfer Values	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	20,000,000	0	20,000,000	0	20,000,000
Interest on short term investments	65,000	65,000	65,000	65,000	65,000
Total Cash Inflow	50,125,000	30,125,000	50,125,000	30,125,000	50,125,000
Cash Outflows					
Payroll Paysheets	27,350,000	27,600,000	28,320,000	28,570,000	28,820,000
Payables Paysheets (incl. Managers' fees)	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Funds transferred to Managers	0	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	39,351,000	39,601,000	40,321,000	40,571,000	40,821,000
Net Cash Inflow / (-) Outflow	10,774,000	-9,476,000	9,804,000	-10,446,000	9,304,000
Balance at Bank (opening)	29,882,861	40,656,861	31,180,861	40,984,861	30,538,861
Balance at Bank (closing)	40,656,861	31,180,861	40,984,861	30,538,861	39,842,861
Investment Income Received by Managers	6,890,000	7,685,000	5,565,000	6,360,000	6,890,000

Pension Fund Committee

5 December 2019

**Performance Measurement of Pension
Fund Investments to 30 September 2019**



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To provide an overview of the performance of the Pension Fund's assets, which are being held outside of Border to Coast Pensions Partnership Ltd, to 30 September 2019.

Recommendation

- 2 Members note the information contained in the attached report produced by the Fund's custodian, JP Morgan.

Background

- 3 The performance of the fund managers is measured against personalised benchmarks chosen at the inception of the fund. The attached report from JP Morgan shows:
 - (a) The fund managers' benchmarks;
 - (b) The total fund performance for the quarter to 30 September 2019, year to date and since inception;
 - (c) The managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 September 2019, year to date and since inception;
 - (d) A portfolio comparison for the quarter ended 30 September 2019 and for the period since inception.

Contact:	Beverley White	Tel: 03000 261900
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J.P.Morgan

***Durham Quarterly Report
Report Package***

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Index and Benchmark Report - Monthly
Durham CC (UK005)
As at September 2019

Name	Month Return
Business Unit Indices	
Equities	
FT-All Share +3%	3.20
FTSE-Ftse All-Share (Gross)	2.95
FTSE-Ftse Aw Developed (Gross)	1.15
MSCI AC World Index (Gross) + 2.5%	1.16
MSCI AC World Index (Gross) + 3%	1.20
MSCI EM (Emerging Markets) (Net)	0.71
MSCI EM (Emerging Markets) (Net) + 2.5%	0.92
MSCI-Acwi (Gross)	0.95
MSCI-Em (Emerging Markets) (Gross) + 2.5%	0.95
MSCI-World (Gross)	0.98
Fixed Income	
British Gov Index Linked over 5 Yr + 0.5%	(0.42)
Cash And Cash Equivalent	
3 MONTH GBP LIBOR	0.06
3Month GBP Libor +4%	0.39
3Month libor in GBP plus 3%	0.31
GBP Zero Return Index	0.00
RPI + 5%	0.17
Retail Price Index (UK)	(0.24)

Executive Summary

Durham CC (UK005)

As of September 2019

Gross of Fee

Total Fund Composite - Actual (0UK00501)

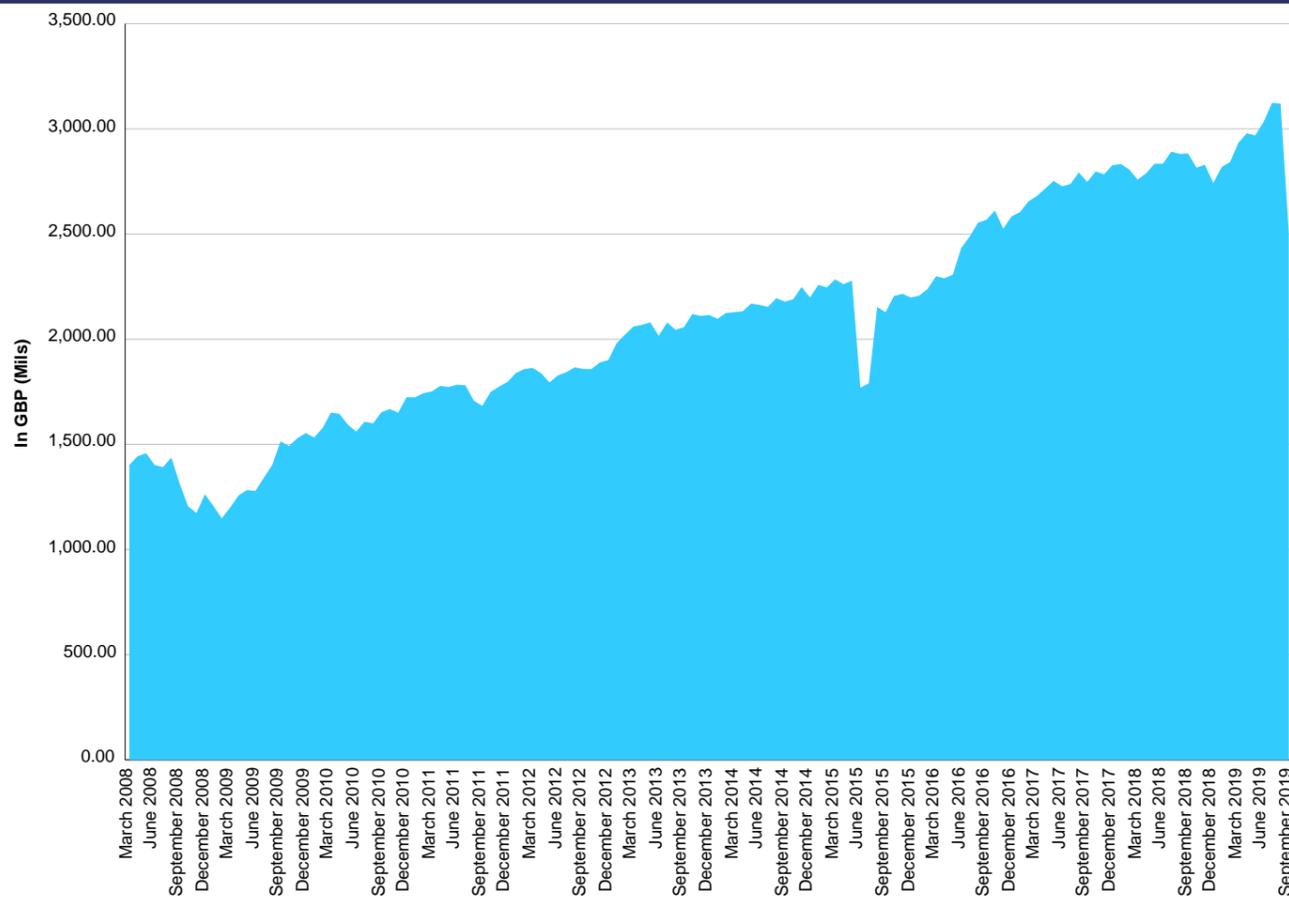
Market Value Overview

	In GBP (Mils)				
	September 2019	June 2019	March 2019	December 2018	September 2018
Market Value	2,500.04	3,034.15	2,934.83	2,742.48	2,882.68
Net Cash Flow	(627.60)	(17.01)	0.00	(26.00)	(20.00)
Net Income / Appreciation	93.49	116.32	192.36	(114.21)	68.05

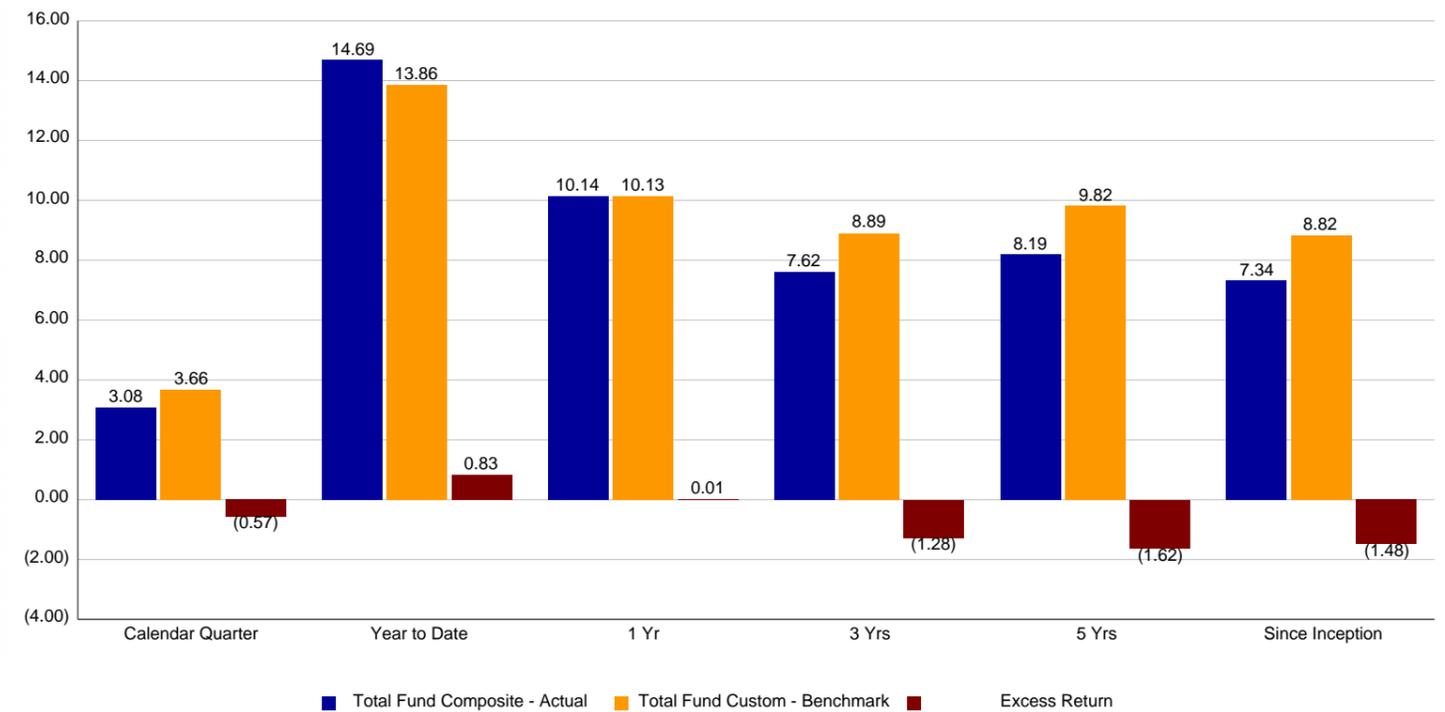
Performance Overview

	Performance (Annualised > 1 Year)					
	Calendar Quarter	Year to Date	1 Yr	3 Yrs	5 Yrs	Since Inception
Total Fund Composite - Actual	3.08	14.69	10.14	7.62	8.19	7.34
Total Fund Custom - Benchmark	3.66	13.86	10.13	8.89	9.82	8.82
Excess Return	(0.57)	0.83	0.01	(1.28)	(1.62)	(1.48)

Development of Market Value - Since Inception



Performance Returns



Portfolio Comparison

Durham CC (UK005)

As of September 2019

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Manager	Benchmark	Market Value (mils)	Weight	Trailing 3 Months Return	Benchmark Trailing 3 Months Return	Excess Returns	Current Contribution to Return
Aberdeen	MSCI-Acwi (Gross) + 3%	529.18	21.17	2.48	4.15	(1.67)	0.53
Alliance Bernstein	3 Month Libor in GBP +3% pa	412.31	16.49	0.88	0.94	(0.05)	0.15
Blackrock	Zero Return - Historically FTSE All Share (Gross) +3% pa	0.01	0.00	0.00	0.00	0.00	0.00
BlackRock DAA	3 Month Libor in GBP +3% pa	467.99	18.72	0.09	0.94	(0.84)	0.02
BNY	MSCI World Index (Gross) + 2.5%	0.00	0.00	3.41	4.47	(1.06)	0.00
CBRE 1	Headline RPI +5% pa (CBRE1)	189.84	7.59	1.86	1.71	0.15	0.14
CBRE 2	Headline RPI +5% pa (CBRE2)	45.53	1.82	8.19	1.71	6.48	0.15
Mondrian	MSCI EM (Emerging Markets) (Gross) + 2.5%	220.40	8.82	(0.77)	(0.35)	(0.43)	(0.07)
Royal London	FTSE index Linked more than 5 years +0.5% pa	634.75	25.39	8.69	8.73	(0.04)	2.21
Transition Account	Not Applicable	0.02	0.00	0.00	-	-	0.00
Total Fund Composite - Actual	Total Fund Custom - Benchmark	2,500.04	100.00	3.08	3.66	(0.57)	3.08

Portfolio Comparison

Durham CC (UK005)

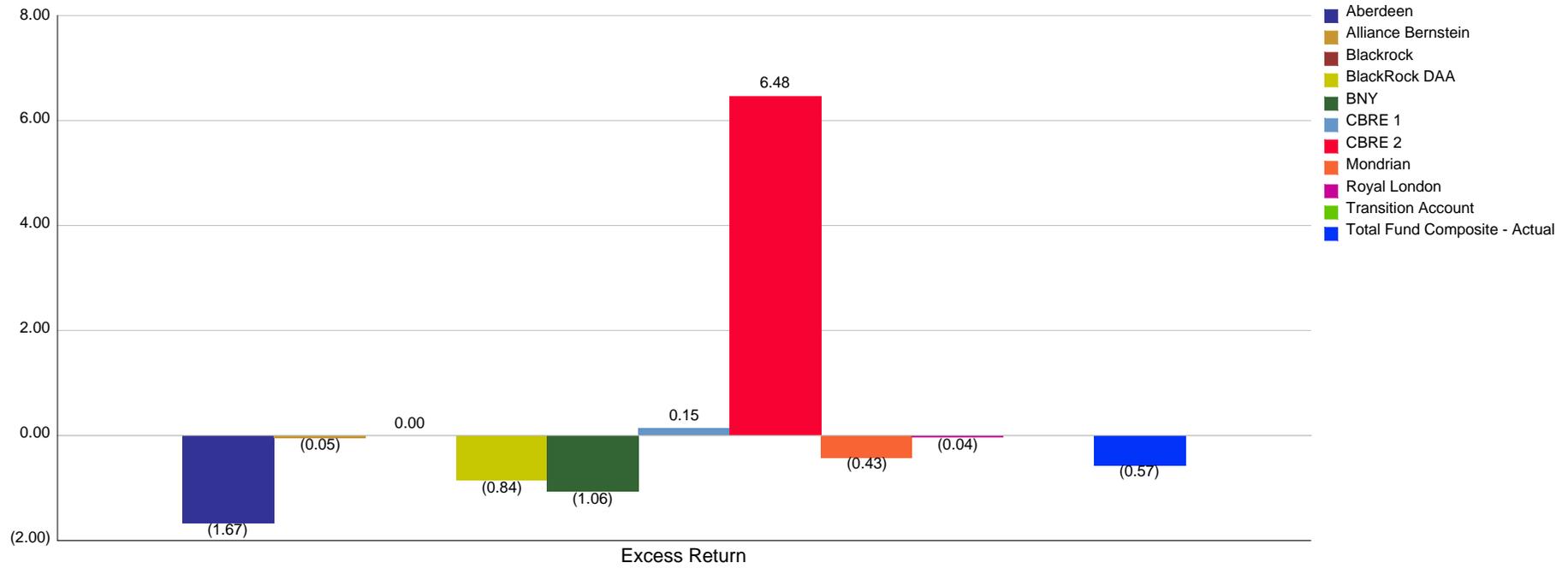
As of September 2019

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Excess Returns - Trailing 3 Months



Relative Performance
Durham CC (UK005)
For Period Ending September 2019
 Gross of Fee
 Excess Return - Additive
 Primary - Pound Sterling

Total Fund Composite - Actual (OUK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047880	Blackrock	10,317.75	0.00	0.00	0.00	0.00	0.00	(0.35)	3.83
	Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	0.00	0.00	(0.58)	5.09
	Excess Return		0.00	0.00	0.00	0.00	0.00	0.24	(1.26)
00047881	Royal London	634,752,652.46	(0.49)	8.69	18.02	20.23	5.83	10.81	9.33
	FTSE index Linked more than 5 years +0.5% pa		(0.42)	8.73	17.90	20.33	5.32	10.86	9.30
	Excess Return		(0.08)	(0.04)	0.12	(0.10)	0.51	(0.04)	0.02
00047882	Alliance Bernstein	412,305,721.34	0.00	0.88	4.68	4.59	2.16	2.69	3.64
	3 Month Libor in GBP +3% pa		0.31	0.94	2.86	3.85	3.58	3.58	4.05
	Excess Return		(0.31)	(0.05)	1.82	0.74	(1.42)	(0.89)	(0.41)
00047885	CBRE 1	189,836,177.74	0.10	1.86	5.79	6.46	6.97	8.41	4.32
	Headline RPI +5% pa (CBRE1)		0.17	1.71	5.68	7.54	8.33	7.59	7.93
	Excess Return		(0.07)	0.15	0.11	(1.08)	(1.35)	0.82	(3.61)
00051183	CBRE 2	45,531,708.69	1.01	8.19	26.61	22.02	7.40	11.37	7.27
	Headline RPI +5% pa (CBRE2)		0.17	1.71	5.68	7.54	8.33	7.59	7.93
	Excess Return		0.84	6.48	20.93	14.48	(0.93)	3.79	(0.65)
00082265	Transition Account	21,502.56	0.00	0.00	0.00	0.00	0.00	0.00	2.02
	Not Applicable		-	-	-	-	-	-	-
	Excess Return		-	-	-	-	-	-	-

Relative Performance
Durham CC (UK005)
For Period Ending September 2019
 Gross of Fee
 Excess Return - Additive
 Primary - Pound Sterling

Total Fund Composite - Actual (OUK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00301582	BlackRock DAA	467,990,663.15	0.08	0.09	8.42	3.09	4.45	-	3.08
	3 Month Libor in GBP +3% pa		0.31	0.94	2.86	3.85	3.58	-	3.81
	Excess Return		(0.23)	(0.84)	5.56	(0.76)	0.87	-	(0.73)
00301629	Mondrian	220,403,676.64	0.69	(0.77)	9.95	6.89	6.85	-	5.58
	MSCI EM (Emerging Markets) (Gross) + 2.5%		0.95	(0.35)	11.82	6.69	10.95	-	10.78
	Excess Return		(0.27)	(0.43)	(1.87)	0.21	(4.10)	-	(5.20)
00301630	Aberdeen	529,182,812.86	0.90	2.48	19.16	8.82	9.83	-	9.28
	MSCI-Acwi (Gross) + 3%		1.20	4.15	23.32	11.12	15.62	-	16.44
	Excess Return		(0.29)	(1.67)	(4.17)	(2.30)	(5.79)	-	(7.15)
00301691	BNY	0.00	0.52	3.41	24.68	12.91	15.79	-	15.91
	MSCI World Index (Gross) + 2.5%		1.05	4.47	24.22	10.95	15.92	-	16.49
	Excess Return		(0.53)	(1.06)	0.46	1.96	(0.13)	-	(0.58)
OUK00501	Total Fund Composite - Actual	2,500,035,233.19	0.24	3.08	14.69	10.14	7.62	8.19	7.34
	Total Fund Custom - Benchmark		0.49	3.66	13.86	10.13	8.89	9.82	8.82
	Excess Return		(0.26)	(0.57)	0.83	0.01	(1.28)	(1.62)	(1.48)

Relative Performance
Durham CC (UK005)
For Period Ending September 2019
 Gross of Fee
 Excess Return - Additive
 Primary - Pound Sterling

CBRE Composite (0UK00502)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047885	CBRE 1	189,836,177.74	0.10	1.86	5.79	6.46	6.97	8.41	4.32
	Headline RPI +5% pa (CBRE1)		0.17	1.71	5.68	7.54	8.33	7.59	7.93
	Excess Return		(0.07)	0.15	0.11	(1.08)	(1.35)	0.82	(3.61)
00051183	CBRE 2	45,531,708.69	1.01	8.19	26.61	22.02	7.40	11.37	7.27
	Headline RPI +5% pa (CBRE2)		0.17	1.71	5.68	7.54	8.33	7.59	7.93
	Excess Return		0.84	6.48	20.93	14.48	(0.93)	3.79	(0.65)
0UK00502	CBRE Composite	235,367,886.43	0.28	3.03	9.30	9.23	7.16	8.99	5.17
	CBRE Composite Custom		0.17	1.71	5.68	7.54	8.33	7.59	7.93
	Excess Return		0.11	1.31	3.62	1.69	(1.17)	1.41	(2.76)

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Pension Fund Committee

5 December 2019



Short Term Investments for the period ended 30 September 2019

Ordinary Decision

Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

1. To provide the Committee with information on the performance of the Pension Fund's short-term investments as at 30 September 2019.

Recommendation

2. Members are asked to note the position at 30 September 2019 regarding the Pension Fund's short-term investments where the Pension Fund's surplus cash holding was £29.883 million and £84,864 net interest was earned in the three month period.

Short Term Investments

3. Durham County Council (the Council) invests the short-term cash balances on behalf of the Pension Fund; this is done in line with the Council's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits that can be placed with each financial institution.
4. The Pension Fund's surplus cash holding as at 30 September 2019 was £29.883 million, which was held in the institutions listed in the following table, alongside their credit rating at 30 September 2019.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts		
Handelsbanken	F1+	0.279
Fixed Term Deposits		
Bank of Scotland	F1	4.230
Close Brothers	F1	1.880
Goldman Sachs	F1	3.196
Santander UK Plc	F1	4.700
UK Local Authorities	N/A	4.700
Building Societies	N/A	7.523
National Savings & Investments	N/A	0.094
Money Market Funds	N/A	3.281
Total		29.883

5. The following table provides information on the net interest earned during the three month period to 30 September 2019, the average daily investment balance and the average return earned in comparison to the average bank base rate. The interest paid to the Pension Fund is based upon the average three month rate of return earned by the Council and is net of the fees of £2,650 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£84,864
Average Return Earned	0.86%
Average Bank of England base rate	0.75%
Average Daily Balance of Investments	£40.327m

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

5 December 2019

**Border to Coast Pensions Partnership
Responsible Investment Policy**



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To provide the Committee with an update on the approach to Responsible Investment at Border to Coast Pension Partnership (BCPP).

Executive summary

- 2 BCPP's Responsible Investment Policy and Corporate Governance & Voting Guidelines were developed in 2017 in conjunction with all twelve Partner Funds and are due to be reviewed annually. The Committee has previously approved the Policies and is asked to approve the updated Policies which BCPP have reviewed with voting and engagement partner Robeco.

Recommendation(s)

- 3 It is recommended that the Committee notes and approves the Responsible Investment Policy and Corporate Governance & Voting Guidelines Policy included in Appendices 1 and 2 that BCPP will operate on behalf of the Pension Fund for assets transferred into the pool.

Background

- 4 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require LGPS administering authorities to formulate and publish a statement of their investment strategy in accordance with guidance published by the Secretary of State. This must include details of how Environmental, Social and Governance (ESG) issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.
- 5 In March, the Committee approved the Fund's Investment Strategy Statement, published on the Council's website from 1 April 2019, which sets out the Fund's policy on ESG and stewardship (often referred to collectively as Responsible Investment or RI Policy).
- 6 Although the Pension Fund will still retain control over its own policy on responsible investment, as The Fund's assets are transferred to the pool responsibility for implementing this policy will move to BCPP. In the same way that the Fund currently relies on its fund managers to take into account any relevant ESG issues when acquiring, retaining or realising investments, and in exercising any investment rights (including voting), the Fund will rely on BCPP to implement its RI Policy in respect of pooled assets.
- 7 The Committee originally approved BCPP's Responsible Investment Policy back in 2017 and approved an update to the Policy last year. The 12 administering authorities in BCPP and their Pension Funds are again being asked to approve the updated RI Policy that BCPP will operate. BCPP's Responsible Investment Policy and its Corporate Governance and Voting Policy are included at appendices 1 and 2 – these documents were approved at BCPP's Joint Committee meeting on 20 November 2019.
- 8 The updated Policies have been reviewed by BCPP's voting and engagement partner Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks. A summary of the key updates to the Policy are included in Appendix 3.
- 9 The approach BCPP will take in its RI Policy is consistent with the approach the Pension Fund has set out in its Investment Strategy Statement and requires its current fund managers to adopt. It is more detailed and includes, for example, a specific section on how the potential impact of climate change on investment risk will be taken into account.

Contact: Paul Cooper

Tel: 03000 269798

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Responsible Investment Policy

Border to Coast Pensions Partnership



November 2019

Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1 st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10 th Oct 2018
V0.3	2 nd draft reflecting OOG amendments	CEO	19 th Oct 2018
V0.4	1 st draft presented to IC and OOG reflecting review by Robeco, ICGN Governance Principles, best in class asset owners and managers	CEO	26 th September
V0.5	2 nd draft reflecting OOG amendments	CEO	18 th Oct 2019

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19 th Oct 2018
Rachel Elwell	CEO	0.5	18 th Oct 2019

3. Board Approval

Approved By	Version	Date
The Board	0.3	7 th Nov 2018
The Board	0.5	5 th Nov 2019

4. Key Dates

Event	Date
Effective Date	01/01/2019
Next Review Date	01/01/2020

5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer

Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Joint Committee	Review policy and any material alterations made thereafter	Reviewer
Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed

DRAFT

Responsible Investment Policy

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

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorized investment fund manager (AIFM). It operates investment funds for its twelve 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 and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. 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, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will 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 will practice active ownership through voting, monitoring companies, engagement and litigation.

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.

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 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.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is 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. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve 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 and updated as necessary.

4. Skills and competency

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

5. Integrating RI into investment decisions

Border to Coast will consider 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 will be considered and monitored in relation to both internally and externally managed assets. The CIO will be 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	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Single use plastics Political lobbying

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 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.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved 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 will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be 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 as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

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 will therefore be 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 will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.

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.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts 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 always be appropriate.**

Risks and opportunities can be presented through a number of ways and include:

- Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding
- Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging
- Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.
- Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.

Border to Coast is:

- Assessing its portfolios in relation to climate change risk where practicable.
- Incorporating climate considerations into the investment decision making process.
- Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)¹ recommendations.
- Encouraging companies to adapt their business strategy in alignment with a low carbon economy.

¹ The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.
<https://www.fsb-tcfd.org/publications/finalrecommendations-report/>

- Supporting climate related resolutions at company meetings which we consider reflect our RI policy.
- Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitoring and reviewing its fund managers in relation to climate change approach and policies.
- Participating in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

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 will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are a signatory to the UK Stewardship Code² and the UN Principles of Responsible Investment³.

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim 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 at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

6.1.1 Use of proxy advisors

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's

² 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/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx>

³ The 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.

Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of 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 will be required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their 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 Robeco's control framework and is externally assured. Border to Coast also reviews the services provided by Robeco on a regular basis.

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 will be recalled ahead of meetings, and lending can also be restricted, when:

- 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 depositing their shares shortly before the date of the meeting (usually one week) with a designated depository.

During this blocking period, shares cannot be sold until after the meeting has taken place; 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 abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. 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.

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 will be 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 twelve 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 will 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 will be 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 compliment other engagement approaches, an external voting and engagement service provider has been appointed.
- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact⁴ breaches.
- We will 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 policy.

Engagement conducted 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.

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 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management

⁴UN 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.

can be held accountable for the issue. For all engagements, SMART 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.

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

6.2.1 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 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.

6.3 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. Robeco, as 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.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership 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, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will 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 will work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be 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 will also be voluntarily reporting in line with the TCFD recommendations.

9. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be 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.

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.

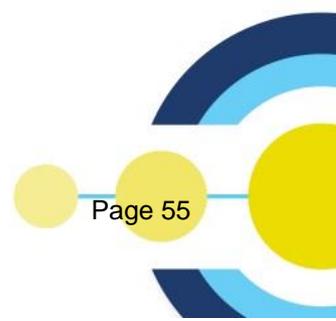
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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership



November 2019



Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1 st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10 th Oct 2018
V0.3	2 nd draft reflecting OOG amendments	CEO	19 th Oct 2018
V0.4	1 st draft presented to IC and OOG reflecting review by Robeco, UK Corporate Governance Code, SRDII, best in class asset managers and owners	CEO	26 th Sept 2019
V0.5	2 nd draft reflecting OOG amendments	CEO	18 th Oct 2019

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19 th Oct 2018

3. Board Approval

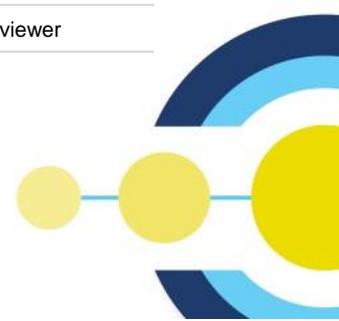
Approved By	Version	Date
The Board	0.3	7 th Nov 2018

4. Key Dates

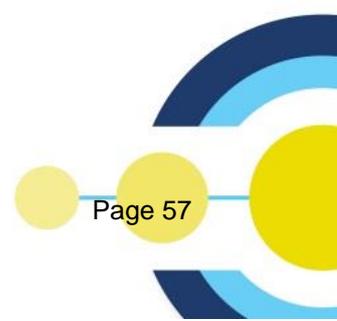
Event	Date
Effective Date	01/01/2019
Next Review Date	01/01/2020

5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer



Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Joint Committee	Review policy and any material alterations made thereafter	Reviewer
Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed



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 Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

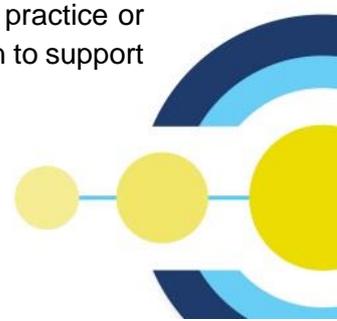
Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs 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 large cap 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.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman 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.

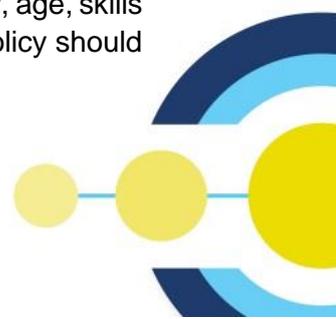
However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice 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.

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 Chairman 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 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 and be disclosed in the Annual Report.

In line with the government-backed Davies report and the HamtonAlexander review we will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

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, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman'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 the issues of 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.

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. 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 should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues.

Directors' remuneration

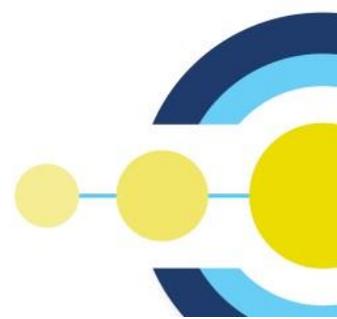
Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is 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 the link between executive pay and company performance is negligible. 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 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.

- **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. 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. However, 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. Employee 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. 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.

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 not be excessive, 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

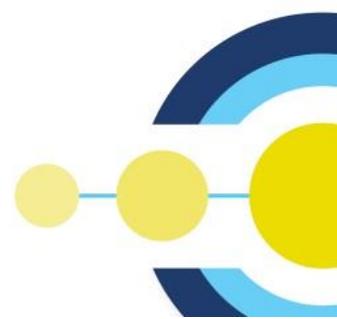
Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy 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 (other than those for investment trusts) 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. 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.

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.

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.

- **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.

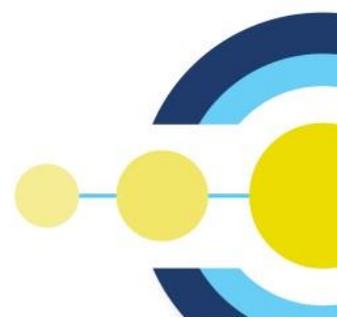
Mergers and acquisitions

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.

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



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. Any amendment to a company's Articles to allow virtual only meetings 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.

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.

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APPENDIX 3

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

Section	Page	Type of Change	Rationale
Introduction	4	Addition / Clarification	Investment time horizon.
Integrating RI into investment decisions	5	Addition	Additional ESG issues: water stress, data privacy, single-use plastics, political lobbying.
Climate change	7/8	Addition Clarification	Extra detail on climate change as a systemic risk. Additional detail on risks and opportunities. Change from 'will therefore look to' to 'is'
Stewardship Use of proxy advisers	8/9	New sub-section	To comply with SRD II, need to name and describe use of proxy advisers.
Engagement	10 11	Restructuring Addition	Bullet points for engagement strands. Detail on engagement process – required by PRI & SRD II/FRC.
Escalation	11	Addition – new sub-section	Detail on options when initial engagement ineffective – required by PRI.
Due diligence and monitoring	11/12	Addition – new sub-section	Detail of audit of stewardship activities – required by PRI.
Communication and reporting	12	Clarification	Change from 'consider' to 'will also be reporting in line with the TCFD recommendations'.

The amendments to the Corporate Governance & Voting Guidelines policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
Company Boards – Composition and independence	5	Addition / Clarification	Change of “9 years” to “9-12 years”. Clarification that this will also depend on market practice.
Leadership	6	Addition	Changed 'must' to 'should' to cover market practice outside the UK
Diversity	7	Clarification	Additional; wording to clarify stance.
Board Evaluation	7/8	Addition	Good practice for Board to disclose these evaluations.
Directors' remuneration	9	Addition	Transparency on pay ratios
Long-term incentives	9	Addition	Encourage Executive Directors to hold stock to align interests with those of shareholders.
Directors' contracts	10	Addition	Limit termination benefits in-line with market best practice.

Audit	10	Addition	Publish audited financial statements ahead of shareholder voting deadline – to cover the Korean market where this does not always happen. Additional text to cover audit tender requirements for markets outside the UK.
Political donations	11	Clarification	Ensure money not being used to fund political parties
Lobbying	11	Clarification	Alignment of company and trade association values.

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