

Pension Fund Investment Sub-Committee

18 December 2017

Agenda

The Pension Fund Investment Sub-Committee will meet in **Committee Room 2, Shire Hall, Warwick** on Monday **18 December 2017** at **10.00 a.m.**

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests.

Members are required to register their disclosable pecuniary interests within 28 days of their election or appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the previous meeting held on 11 September 2017.

2. Investment Performance

3. Appointment of Private Debt Manager

4. Pooling Verbal Update (Rachel Elwell CEO, BCPP)

5. MIFID II Verbal Update

6. Results from Training Survey (Karen Shackleton)

7. Investment Guiding Principles

8. Responsible Investment and Share Voting

9. Any other items

Which in the view of the Chair, require urgent consideration.

10. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

‘That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972’.

11. Exempt minutes of the meeting held on 11 September 2017

12. Investment Review

DAVID CARTER
Joint Managing Director
Shire Hall
Warwick

Membership of the Pension Fund Investment Sub-Committee

Councillor Bill Gifford (Vice-Chair)

Councillor John Horner

Councillor Bob Stevens (Chair)

Councillor Wallace Redford

Councillor Alan Webb.

For general enquiries please contact Paul Williams

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**Minutes of the Pension Fund Investment Sub-Committee
meeting held on 11 September 2017**

Present:

Members

Councillors Bill Gifford (Vice Chair), Bob Stevens (Chair), Wallace Redford and Alan Webb

Officers

John Betts – Head of Finance

Neil Buxton – Pensions Manager

Mathew Dawson - Treasury and Pension Fund Manager

Aneeta Dhoot – Senior Finance Officer

Chris Norton – Strategic Finance Manager

Ben Patel-Sadler - Democratic Services Officer

Jane Pollard – Legal Services Manager

Sukhdev Singh – Senior Finance Officer

Invitees

Peter Jones – Independent Investment Adviser

Paul Potter – Hymans Robertson

Karen Shackleton – Independent Investment Adviser

Richard Warden – Hymans Robertson

Observers

Councillor Jill Simpson-Vince

No members of the public attended.

1. General

(1) Apologies for absence

Councillor John Horner

(2) Members Disclosures of Pecuniary and Non-Pecuniary Interests

None

(3) Minutes of the previous meeting held on 12 June 2017

At page two of the minutes, members noted that checks had been made to ensure that the correct legal agreements were in place between the Fund and Legal and General.

The minutes of the meeting held on 12 June 2017 were agreed as true and correct records and were signed by the Chair.

2. Investment Performance

Mathew Dawson - Treasury and Pension Fund Manager introduced the report and informed the Sub-Committee that at the present time, the fund value was just over £2billion – a 1.74% increase on the previous quarter.

The Sub-Committee noted that the Equity asset class was currently 3.3% overweight.

Mathew Dawson informed the Sub-Committee that draw downs in the Private Equity asset class would bring it closer to the target figure.

Members noted that between 1 and 1.5 percent of the total fund value was currently held in cash. The Sub-Committee noted that cash was not a specified asset class – the fund was always seeking to hold the correct amount of the fund's total value in cash. Officers were satisfied that the current amount of cash held was within the correct target range. Members noted an interim plan was in place whereby any drawn down cash would be reinvested appropriately.

Karen Shackleton – Independent Investment Adviser informed the Sub-Committee that the potential rebalancing of the fund (by asset class) would be looked at in December 2017.

The Sub-Committee noted that for the quarter ending 30 June 2017, MFS and Threadneedle had performed well.

The Sub-Committee noted that Legal and General were shown to have underperformed in relation to their benchmark targets. Mathew Dawson informed members that Legal and General had not underperformed overall – the data was represented in this way because of how Legal and General measured their own performance. In terms of the Warwickshire fund, Legal and General had performed well.

Mathew Dawson informed the Sub-Committee that the active fund managers had been consistently outperforming their benchmark targets.

Resolved:

The Sub-Committee noted the fund value and investment performance for the first quarter of 2017/18 to 30 June 2017.

3. MIFID II

Karen Shackleton – Independent Investment Adviser introduced the report and informed the Sub-Committee that the MIFID II changes were currently set to take effect from 3 January 2018. There was therefore some urgency for the Sub-Committee to delegate to the Head of Finance the MIFID II “opt up” process.

The Sub-Committee noted that by not electing to “opt up”, investors would be automatically classified as retail investors by asset managers. This would have a significant impact on the pension fund, as certain types of more sophisticated investments could not be offered to the retail market.

Members noted that 1.8 of the attached report outlined the Local Government Association's (LGA) flow chart for a UK Local Authority Client Opt-Up Process. Members noted that each investment firm employed a compliance officer to whom the decision over opt-up was delegated.

Karen Shackleton informed the Sub-Committee that the Warwickshire County Pension Fund met the requirements of the quantitative test. Members noted that the Warwickshire County Pension Fund would meet the requirements in relation to the three tests outlined at 2.4 of the attached report. The Sub-Committee noted that the Warwickshire County Pension Fund would likely meet the qualitative assessment criteria as outlined at 2.5 of the attached report, although there were some points to consider at section 4 of the attached report.

The Sub-Committee noted it was a requirement for Warwickshire to "opt-up" to MIFID II – the short time frame to complete the process would be aided by the production of the standard template questionnaire (produced after joint working by the LGA, the investment community, LGPS funds and the FCA).

Karen Shackleton informed the Sub-Committee that certain protections that would be lost by opting up were outlined at 3. of the report.

The opting up process would have implications for members of the Pension Fund Investment Sub-Committee which were outlined at 4. of the report. Karen Shackleton drew particular attention to the recommendation for officers to log the number of hours of training completed by members.

Mathew Dawson - Treasury and Pension Fund Manager informed the Sub-Committee that he would provide guidance to members in terms of which conferences and training events would be suitable for them to attend in order that it would further their knowledge and understanding around relevant issues.

Members expressed a view that they had found the training sessions held at Shire Hall to be extremely useful. Members agreed that attendance at future conferences and training sessions would be shared equally amongst the Sub-Committee in order that knowledge around several different areas could be obtained.

Mathew Dawson informed members that a training questionnaire would be circulated for them to complete. This would identify any areas of training need which could then be addressed by member attendance at specific training events/conferences. Another training option for members would be to visit fund managers to get experience of the entire investment process. Fund managers and investors could also be invited to attend briefing sessions at the Council.

The next steps of the opting up process were outlined at 6. of the report. Karen Shackleton recommended that the Sub-Committee agreed to these steps in order that officers could commence the process in readiness for the January 2018 deadline.

Mathew Dawson informed the Sub-Committee that the MIFID II "opt up" process had been added to the Risk Register.

Resolved:

The Sub-Committee agreed to delegate to the Head of Finance the MIFID II “opt up” process with each fund manager as appropriate, to ensure that professional status is achieved by 3 January 2018.

4. Actuarial Services

Mathew Dawson - Treasury and Pension Fund Manager introduced the report and informed the Committee that Hymans Robertson had been appointed as the fund's actuary in October 2011 following a full tender process. Members noted that the fund now needed to re-tender for this work for the forthcoming 2019 and 2022 actuarial valuations.

The Sub-Committee noted that the National LGPS Framework had been introduced which provided LGPS funds with a streamlined tender process that gave each fund the access to the best providers whilst ensuring value for money. The other option was to run a full OJEU tender process, which was likely to cost more and be more time consuming than using the National LGPS Framework.

The Sub-Committee noted that four potential actuary providers had been identified after officers had begun the process to tender using the LGPS Framework – each approached their actuary in different ways, although all had been identified as being able to fulfil the role to the required standard.

The Sub-Committee agreed that it would be important to interview/meet the recommended provider to ensure that they would work well with the Sub-Committee and with the Council's officers.

Resolved:

The Sub-Committee approved the tendering exercise for actuarial services through the LGPS National Framework and that the preferred provider should be interviewed by the Sub-Committee prior to appointment.

5. BCPP Pooling Update

Mathew Dawson – Treasury and Pension Fund Manager provided the Sub-Committee with a verbal update in relation to the progress being made by the Border to Coast Pension Pool (BCPP). The following points were noted by the Sub-Committee:

- A Chief Executive Officer had been appointed.
- Recruitment of the Executive Committee would be taking place in October 2017.
- Interviews for the positions of Non-Executive members would take place towards the end of September 2017.
- A Joint Committee vote for the proposed BCPP budget would take place in October 2017.
- An application from BCPP to the FCA was yet to be submitted.

- It was likely that a third party administration support team would be recruited during January 2018, with ICT in place in March 2018.
- The BCPP staffing structure would be submitted to the Joint Committee for approval.
- The BCPP offices would be located in Leeds.
- BCPP was signed up to CEM benchmarking, as were all of the other pools. This would result in the performance of pools being easily measurable.
- Members noted the proposed salaries of certain BCPP positions were being reviewed (to determine what packages were reasonable in the current economic climate).
- The BCPP would become active in June 2018.

Resolved:

The Sub-Committee noted the verbal update.

6. Any other items

None

7. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

‘That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972’

The meeting rose at 12.15 pm

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Chair

Pension Fund Investment Sub Committee

12 Dec 2017

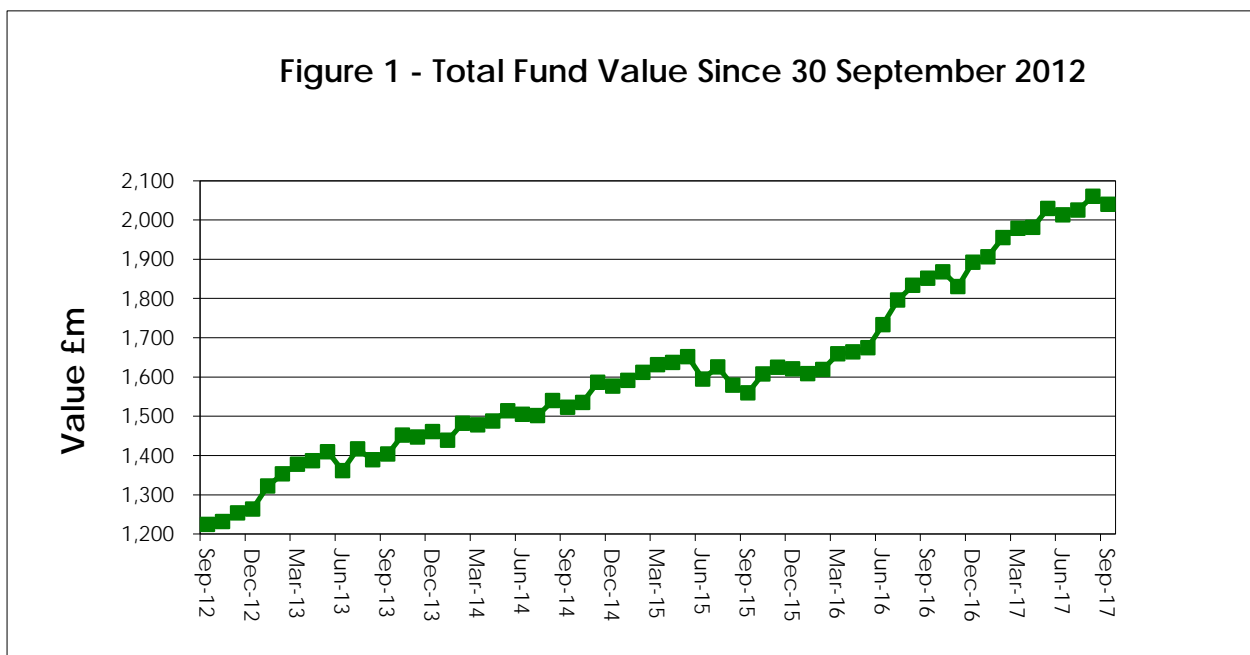
Investment Performance

Recommendation

That the Pension Fund Investment Sub Committee note the fund value and investment performance for the first quarter of 2017/18 to 30 Sep 2017.

1. Fund Value at 30 Sep 2017

- 1.1 The fund value was £2,039.4 at 30 Sep 2017 an increase of 1.32% on the previous quarter as shown in Figure 1.



2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30 Sep 2017 is shown in Table 1.

Table 1: Fund Asset Allocation

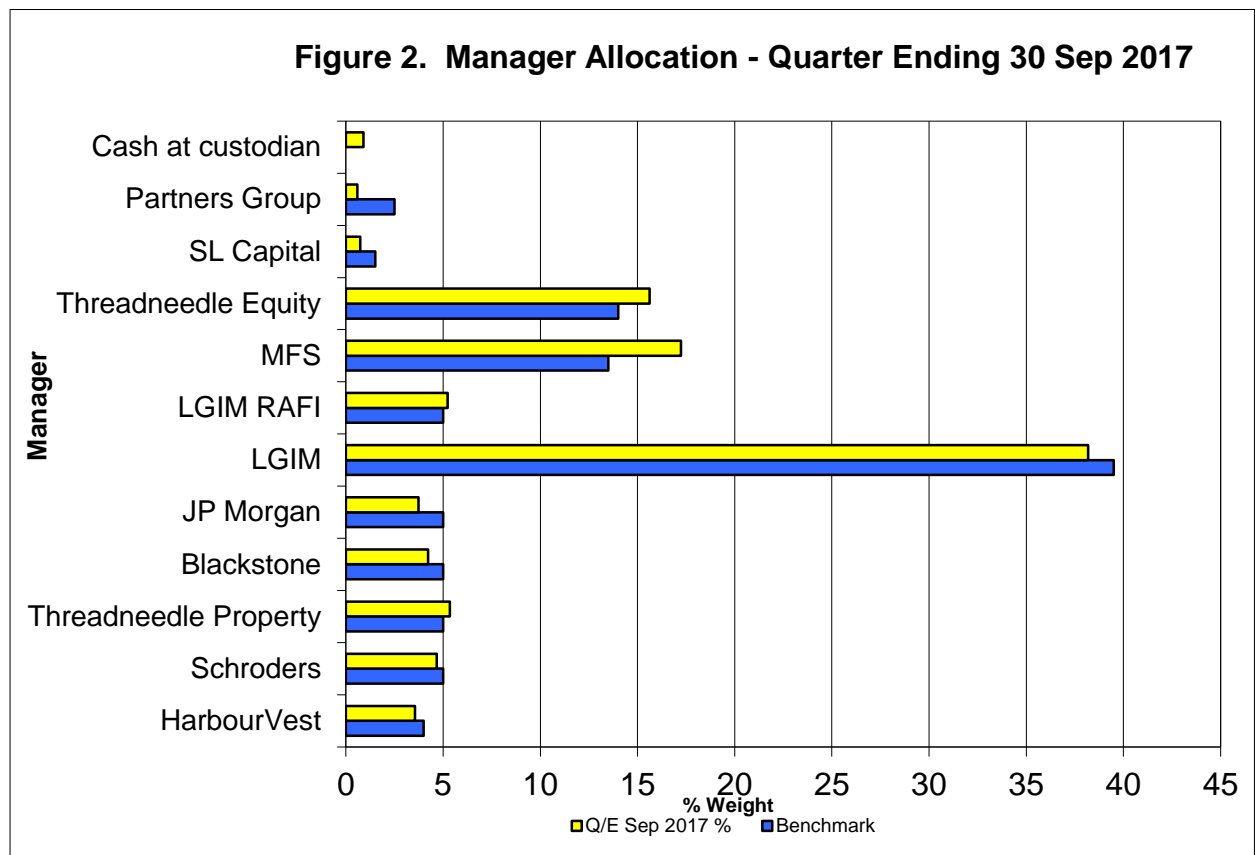
Asset Class	Q/E Sep 2017	Fund policy	Over/under weight
	%	%	%
Equity	57.9	54.5	3.4
UK	25.2	23.0	2.2
Overseas	27.5	26.5	1.0
Fundamental Global Equity	5.2	5.0	0.2
Fixed Income	17.9	17.5	0.4
UK corporate bonds	10.3	10.0	0.3
UK government bonds	2.4	2.5	-0.1
UK index linked bonds	5.2	5.0	0.2
Hedge Funds	4.2	5.0	-0.8
Private Equity	3.6	4.0	-0.5
Property	9.8	10.0	-0.2
Absolute Return Bonds	3.7	5.0	-1.3
Infrastructure	1.3	4.0	-2.7
Cash	1.5	0.0	1.5

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 Sep 2017 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Sep 2017 %	Benchmark	Variance
HarbourVest	3.6	4.0	-0.5
Schroders	4.7	5.0	-0.3
Threadneedle Property	5.4	5.0	0.4
Blackstone	4.2	5.0	-0.8
JP Morgan	3.7	5.0	-1.3
LGIM	38.2	39.5	-1.3
LGIM RAFI	5.2	5.0	0.2
MFS	17.2	13.5	3.7
Threadneedle Equity	15.6	14.0	1.6
SL Capital	0.7	1.5	-0.8
Partners Group	0.6	2.5	-1.9
Cash at custodian	0.9	0.0	0.9
Total	100.0	100.0	0.0

2.3 Fund asset allocation against each manager is shown in Figure 2.



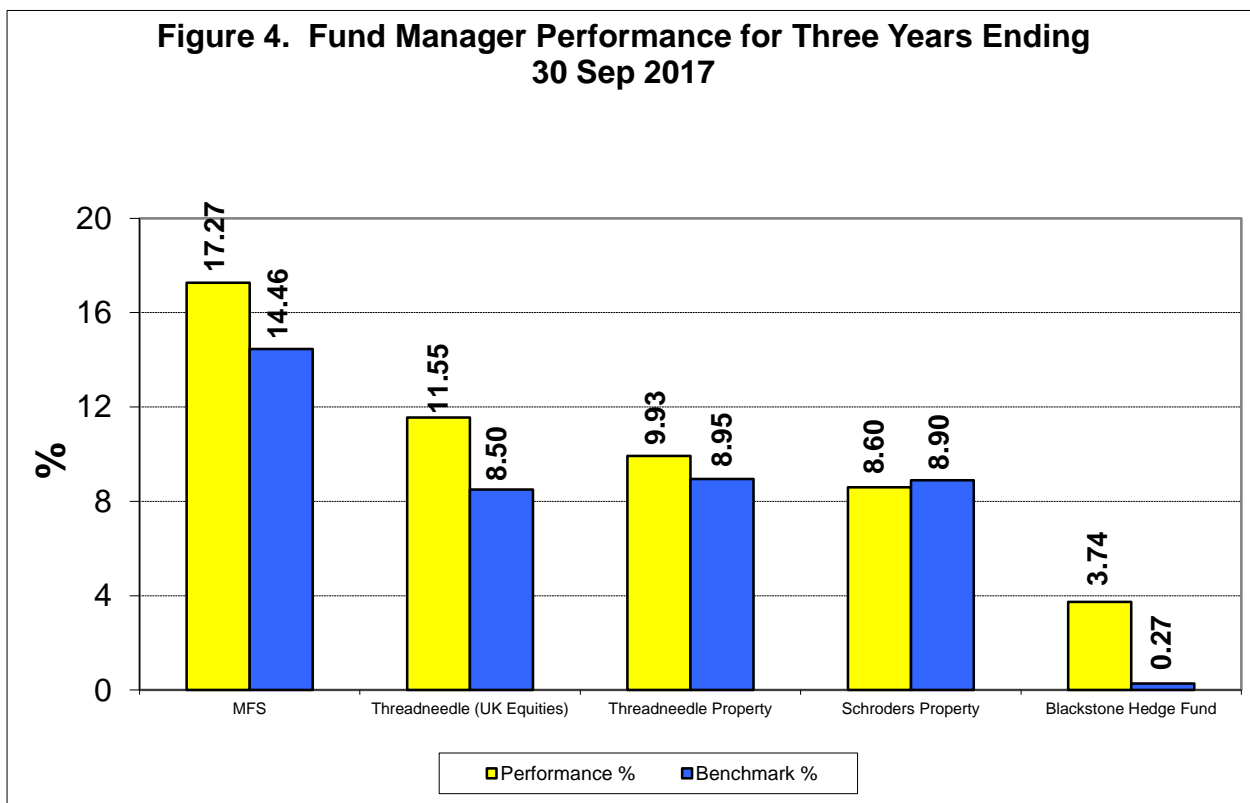
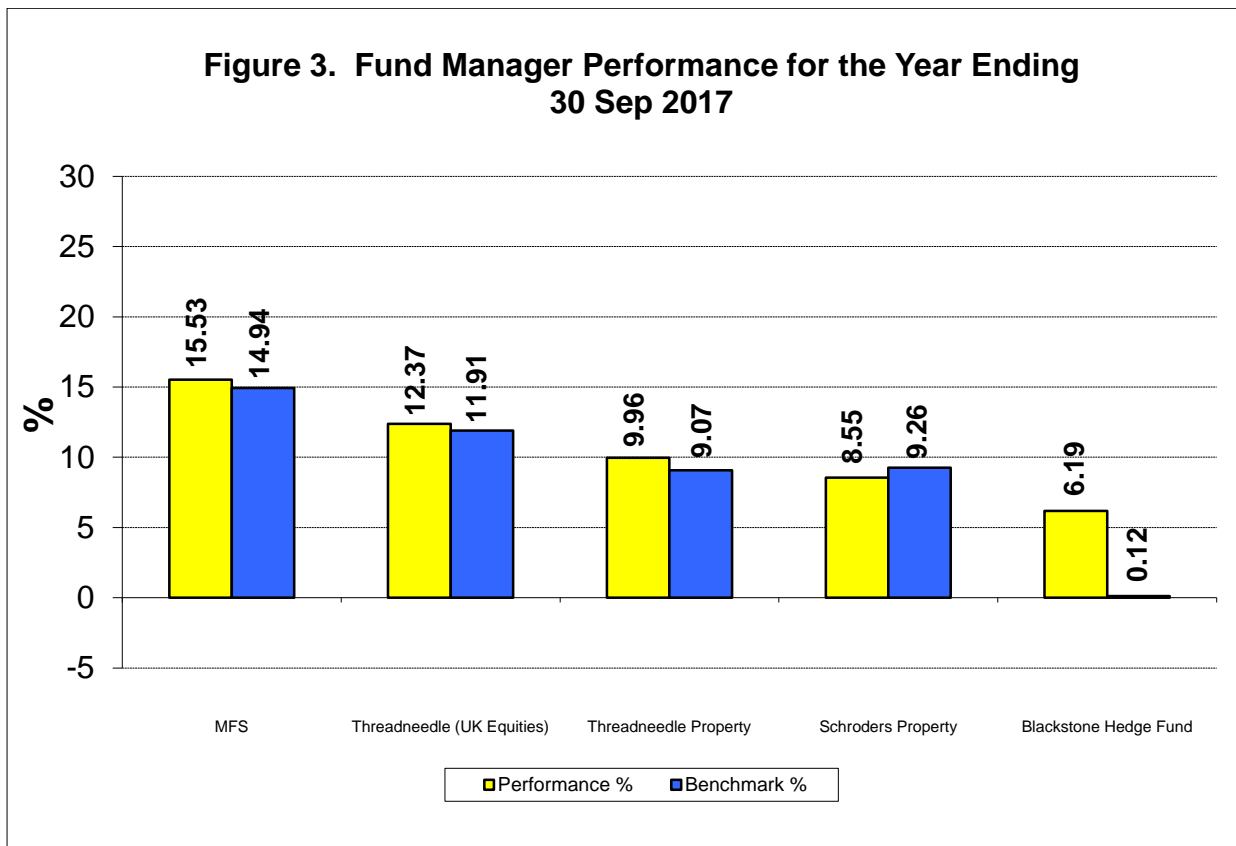
3. Fund Performance

3.1 Overall the fund under-performed its overall benchmark by 0.31%. The performances of managers against their benchmarks for the quarter ending 30 Sep 2017 were:

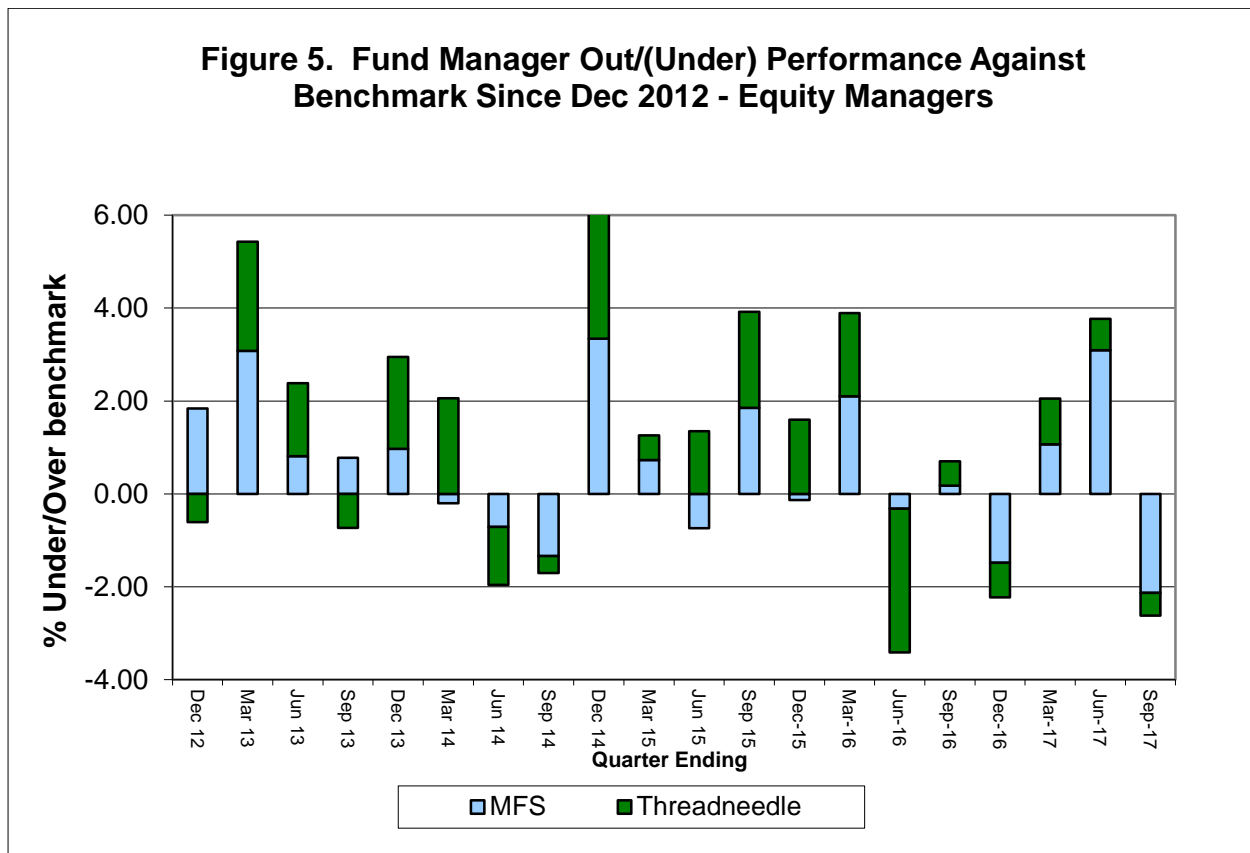
Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Sep 2017	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	-0.26	1.87	-2.13
Threadneedle	FTSE All-Share	1.68	2.17	-0.49
Legal and General (Global Equities)	LGIM Benchmark	2.68	2.92	-0.24
Legal and General (Fixed Interest)	LGIM Benchmark	-0.21	-0.03	-0.18
Threadneedle Property	Customised Benchmark	2.65	2.31	0.34
Schroders Property	Customised Benchmark	3.12	2.37	0.75
Blackstone Hedge	Customised Benchmark	1.73	0.03	1.70
JP Morgan Strategic Bond	Customised Benchmark	0.95	0.06	0.89
Total	WCC Total Fund Benchmark	1.33	1.64	-0.31

3.2 Annualised return for the fund managers to 30 Sep 2017 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.



3.3 Equity Managers performance against their benchmarks are summarised in Figures 5.



	Name	Contact Information
Report Author	Sukhdev Singh, Principal Accountant	01926 412861 sukhdevsingh@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Joint Managing Director	David Carter, Joint Managing Director	01926 412564 davidcarter@warwickshire.gov.uk

Pension Fund Investment Sub Committee

18 December 2017

Appointment of Private Debt Manager

Recommendation

The Sub-Committee is asked to approve the appointment of Alcentra and Partners Group as Private Debt Managers following interviews held on 1 December 2017

1. Background

- 1.1 At the sub-committee of 12 June 2017 Hymans Robertson presented a paper that recommended several amendments to the funds asset allocation. One of the recommendations was to allocate 5% of the fund to private debt due to the reliability of the investment returns through a strong income stream. The recommendation was approved by the committee subject to further training due to the specialist nature of the asset class.

2. Asset Allocation

- 2.1 On 14 July 2017 Alcentra, a boutique manager specialising in debt, provided the sub-committee with a targeted training session with Hymans Robertson. The training covered an in-depth background to the asset class, investment returns, risk and volatility, opportunities, and geographical case studies.
- 2.2 Following the training session, the committee considered the asset class in more depth at the sub-committee on 11 September. After agreeing that the asset class is suitable, the committee discussed whether to recruit a suitable fund manager immediately, or to wait until Border to Coast Pensions Partnership (BCPP) can offer a pooled solution. Given that a suitable sub-fund will not be open at BCPP until 2019 it was decided to proceed with a manager selection exercise with a view to appointing a manager by the end of 2017.
- 2.3 Hymans Robertson subsequently drafted a longlist of suitable managers. Following an informal discussion with the Chairman of the sub-committee a conference call was held with officers and the funds independent advisors to set up a shortlist of managers.

- 2.4 Interviews were held on 1 December 2017. Following the interviews and subsequent discussion there was a discussion by the interview panel. It was decided that the allocation of 5% should be split equally between Alcentra and Partners Group
- 2.5 Both of these investments will run until maturity at which time the fund will mature and the proceeds will be re-invested in a suitable BCPP sub-fund, (assuming no further changes in asset allocation).

3. Private Debt when Pooled

- 3.1 Officers attended a pooling meeting with the BCPP project team on 3 October to discuss private debt as an asset class and if BCPP's proposed sub-funds are felt suitable for Warwickshire when the funds selected in this report mature and a pooled solution will be necessary to maintain exposure.
- 3.2 BCPP officer operations group subsequently proposed two private debt funds and two multi-asset credit sub-funds be offered to member funds by the pool. A follow up conversation between officers and advisors which looked at the proposed funds in detail, concluded that one or a combination of funds would be investable by Warwickshire.

Background Papers

None

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Joint Managing Director	David Carter, Joint Managing Director	01926 412564 davidcarter@warwickshire.gov.uk

Pension Fund Investment Sub Committee

18 December 2017

Investment Guiding Principles

Recommendation

That the Pension Fund Investment Sub-Committee discuss the proposed investment guiding principles and approve their inclusion as an appendix in the fund's Investment Strategy Statement.

1. Background

- 1.1 Following the implementation of the LGPS Investment Regulations in 2016, funds were required to replace the Statement of Investment Principles with the Investment Strategy Statement (ISS). Warwickshire implemented this change at the sub-committee meeting in March 2017
- 1.2 As part of the current changes in asset allocation that are currently in progress the fund will revise the ISS to reflect the new strategic position. As part of this process, officers have used this opportunity to introduce investment guiding principles to the ISS. The aim of introducing guiding principles is to act as aid to members when decision making and as useful information for external service providers to assess product suitability for the fund.
- 1.3 It is important for sub-committee members to note that these principles are not a set of stringent rules and can be challenged and adapted as appropriate.

2. Investment Guiding Principles

- 2.1 It is proposed that the fund adopt the following principles:
 1. The Pension Fund is a long term vehicle which must be sustainable in generating investment returns to pay pensions for scheme members.
 2. It is appropriate to take a long term view when setting the investment strategy though the impact of short term volatility is also considered.
 3. Strategic asset allocation is the most important component of decision making as it is here that the optimum risk and return profile is designed and monitored.
 4. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each actuarial valuation.

5. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.
6. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.
7. Responsible ownership of companies benefits long term asset owners.
8. A balance of passive and active equity investment will, over the course of a market cycle provide the best mix of performance, diversification and cost.
9. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the fund believes this to be of limited benefit to long term investment returns.
10. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.
11. There is a long term risk premium to be earned for investing in equities, credit and property relative to gilts.
12. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
13. The performance of any active managers should be assessed over suitably long periods.
14. Staff and members of the Pension Fund Investment Sub-Committee must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.
15. External advice from independent advisors and an investment consultant helps planning, risk management and decision making.
16. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.

Background Papers

None

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Joint Managing Director	David Carter, Joint Managing Director	01926 412564 davidcarter@warwickshire.gov.uk

Pension Fund Investment Sub Committee

18 December 2017

BCPP Responsible Investment and Voting Guidelines

Recommendation

That the Pension Fund Investment Sub Committee approves:

- The BCPP Corporate Governance Voting Guidelines at **Appendix A**
- The BCPP Responsible Investor (RI) Policy at **Appendix B**
- The redrafting of the fund's voting policy to align with BCPP

1. Background

- 1.1 From 2018 Border to Coast Pensions Partnership (BCPP) will manage investments for the twelve LGPS member funds that it encompasses. Part of this responsibility is to ensure a strong policy on responsible investment and that the interest of each member fund is represented when voting and engaging with companies.
- 1.2 The Corporate Governance Voting Guidelines at **Appendix A** have been prepared with the belief 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. BCPP will engage with companies on environmental, social and governance issues and exercise its voting rights at company meetings.
- 1.3 The RI Policy at **Appendix B** is based on the belief that 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.
- 1.4 At the BCPP Joint Committee meeting of 20 October 2017 both documents were approved. Both policies are now being ratified by each fund at their respective investment committee/board.
- 1.5 Despite asset pooling, the fund has an ongoing responsibility to maintain its own policy for voting. The Fund's voting policy will therefore need to be refreshed to take account of recent best practice guidance and, where necessary, reference the BCPP policy. The revised voting policy will be presented at the March 2018 meeting of the sub-committee. The current RI

policy in the fund's Investment Strategy Statement will not change as a result of the BCPP policy.

Background Papers

None

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Joint Managing Director	David Carter, Joint Managing Director	01926 412564 davidcarter@warwickshire.gov.uk



PENSIONS PARTNERSHIP

APPENDIX A

Corporate Governance & Voting Guidelines

1. Introduction

Border to Coast Pensions Partnership (BCPP) 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 BCPP 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 is to appoint 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. BCPP considers the UK Corporate Governance Code and other best practice 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, BCPP 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.

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

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

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

- BCPP 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.

- BCPP will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- BCPP 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.

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 in order 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 companies, excluding the Chair, should consist of a majority of independent non-executive directors. As they have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should 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.
- Served on the board for over nine years.
- Has had a material business relationship with the company in the last three years.
- Has been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.

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. 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.

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. In order 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. Companies should consider candidates from all racial and religious backgrounds and look to increase the level of female representation on boards in line with best practice; a diversity policy should also be disclosed in the Annual Report.

Succession planning

BCPP expects 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 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 nor the chairmanship of such a company. 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.

Re-election

In order 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 in order to appropriately challenge management. In order to achieve this, boards need to be regularly refreshed; therefore all directors should be subject to re-election annually.

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.

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 there is a wholly independent remuneration committee.

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.

In order 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.

- **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to performance over the longer-term.

- **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. BCPP 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. Performance

should therefore be measured over a period in line with the company's strategy; this should be at least three years but preferably longer. 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.

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 will also be scrutinised. 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.

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, 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. BCPP will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

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. The audit committee should consist of at least three members who are all independent non-executive directors. 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.

FTSE 350 companies should tender the external audit contract at least every ten years. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. 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. It is therefore prudent to oppose all political donations.

Shareholder rights

As a shareowner, BCPP 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 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. BCPP will not support measures or proposals which will dilute or restrict its 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

BCPP 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

BCPP 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 BCPP, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

BCPP 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 BCPP will oppose a vote to adopt the report and accounts

simply because it objects to them per se; however there may be occasion when it 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, BCPP will oppose the changes.

Investment trusts

BCPP 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 and should not necessarily be required to report on such matters as environmental issues. 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.

BCPP 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.



Responsible Investment Policy

This Responsible Investment Policy details the approach that BCPP will follow in fulfilling its commitment to the partner funds in the delegation of RI and stewardship responsibilities.

1. Introduction

The primary objective of the Border to Coast Pensions Partnership (BCPP) is to ensure that all funds can meet their pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. 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. BCPP will be 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 BCPP UK Stewardship Code compliance statement.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process, to better manage risk and generate sustainable, long-term returns. Investment stewardship, which involves being an active owner and using shareholder rights to improve long-term performance, is also an integral part of the process. The incorporation of ESG factors in the investment process is part of the fiduciary duty to beneficiaries of funds. The Law Commission's 2014 report 'The Fiduciary Duties of Investment Intermediaries' states that Trustees should take into account any factors which are financially material to the performance of an investment including ESG factors.

3. Governance and Implementation

The Responsible Investment Policy is jointly owned and created after collaboration and engagement with the 12 Partner Funds. Implementation and oversight of the policy is by the Chief Investment Officer (CIO). The policy will be monitored with regular reports to the CIO, Board, Joint Committee and Partner Funds. It will be reviewed at least annually or whenever revisions are proposed, and updated as necessary.

4. Skills and competency

BCPP will, where needed, take proper advice in order to formulate and develop policy. The Board and investment 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 these responsibilities.

5. Integrating RI into investment decisions

BCPP 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 BCPP, as a long term investor, take them into account when analysing potential investments. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to internally managed assets and also within externally managed mandates. Integration and implementation will be via the CIO.

Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management	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 Bribery & corruption

5.1 Climate change

BCPP will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. It poses significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. BCPP will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable
- Incorporate climate considerations into the investment decision making process
- Engage with companies in relation to business sustainability and disclosure of climate risk

inline with TCFD recommendations

- Encourage companies to adapt their business strategy in alignment with a low carbon economy
- Support climate related resolutions at company meetings where appropriate
- Co-file shareholder resolutions at company AGMs where appropriate on climate risk disclosure
- Monitor and review its fund managers in relation to climate change approach and policies
- Collaborate with other investors including other pools and groups such as LAPFF
- Engage with policy makers with regard to climate change

6. Stewardship

As a shareowner the BCPP 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, BCPP is a signatory to the UK Stewardship Code¹ and its statement of compliance can be viewed here xxxxxx. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location.

Responsible investment and ESG considerations will be specifically referenced when conducting fund manager due diligence. They will be factored into the selection and appointment process, and included in investment management agreements. Managers will be expected to include ESG issues within their investment decision making process and take into account both financial and “extra-financial” considerations. Managers will be required to report back to BCPP regarding their RI activities on a regular basis.

6.1 Voting

Voting rights are an asset and BCPP 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 practicable. In order to leverage scale and for practical reasons, BCPP has developed a collaborative voting policy to be enacted by BCPP on behalf of the Partner Funds which can be viewed here xxxxxxx. A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of BCPP by the proxy voting advisor to ensure that votes are executed in accordance with policies. 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.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually. There may be occasions when an individual fund wishes BCPP to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

BCPP has an active stock lending programme. Where stock lending is permissible, lenders of

¹ 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/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>

stock do not generally retain any rights on lent stock. BCPP has created procedures along with its external providers to enable stock to be recalled prior to a shareholder vote in certain circumstances. This will only occur if the benefits of voting outweigh the benefits of stock lending. Stock will be recalled ahead of meetings when:

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

Lending can also be restricted in these circumstances.

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

6.2 Engagement

The best way to influence companies is through engagement; therefore BCPP 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 is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place with companies across all markets where possible, as well as with external fund managers.

BCPP will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)² recommendations.

BCPP will seek to work collaboratively with other like-minded investors and bodies in order to maximise its influence, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively collaborating with various other external groups e.g. The Local Authority Pension Fund Forum (LAPFF), other LGPS pools and other investor coalitions.

BCPP will engage with regulators, public policy makers, and other financial market participants as and when required.

² 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/final-recommendations-report/>

6.3 Litigation

Where BCPP holds securities which are the subject of individual or class action securities litigation, it will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. BCPP 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. BCPP will work with industry professionals to facilitate this.

7. Communication and reporting

BCPP 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 BCPP's website quarterly; reporting on engagement and RI activities to the Partner Funds; and in the annual report.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

8. Training and assistance

BCPP 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.

9. Conflicts of interest

BCPP's Conflicts of Interests policy will be disclosed and applied to identify and manage any conflicts of interest between the Partner Funds and BCPP.