INVESTMENT STRATEGY STATEMENT

INTRODUCTION

The East Riding Pension Fund ("the Fund"), which is administered by the East Riding of Yorkshire Council ("the Administering Authority"), is required to maintain an Investment Strategy Statement ("ISS") in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS has been prepared by the Committee having taken advice from the Director of Corporate Resources.

The ISS, which was originally approved by the Committee on 17th March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statement ("FSS") in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS for the Fund has been revised to take into account the results of the actuarial valuation, effective 1 April 2020. The FSS, which was approved by the Pensions Committee on 13th March 2020, complies with these Regulations.

INVESTMENT STRATEGY

The primary investment objective is to ensure that the Fund will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overall objective, the Fund's investment strategy is to:

- Maximise the return from investments whilst maintaining risk within acceptable levels with a current long term nominal return objective of 5.5% p.a.;
- Maintain and improve the future funding level of the Fund with the aim of achieving a funding level of 100%; and
- Enable employer contributions to be kept as stable as possible.

In order to discharge its responsibilities, the Pensions Committee will take advice, where appropriate, from a wide range of sources including, but not limited to, the Director of Corporate Resources, the independent advisor, the Fund's investment managers, and the Council's Section 151 and Monitoring Officers.

The core investment beliefs of the East Riding Pension Fund are as follows:

Fund objectives

1 Clear and well defined objectives are essential to reflect the Fund's long-term strategic direction of travel and to help build a plan for achieving these objectives.

2 The long-term objective of achieving contribution stability for the Fund should be key in determining the level of investment risk.

3 Funding and investment strategy are linked; it is therefore important that the long-term investment strategy supports the funding objectives.

Investment strategy, structure and risk

4 The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives.

5 Strategic asset allocation is a key determinant of risk and return, and typically has a more significant influence on outcomes than manager or stock selection.

6 Alternative asset classes (including income-oriented assets) can, to a point, add diversification to the Fund's investment strategy and should ensure equities alone do not dominate the overall level of risk and return.

7 A degree of volatility in assets is acceptable to support long-term returns provided there is an expectation that this risk will be rewarded over the longer term.

8 Climate change and the expected transition to a low carbon economy represents a long term financial risk and opportunity with respect to achieving the Fund objectives.

Implementation and investment management

9 Rebalancing, subject to appropriate tolerances, can add value over the longer term.

10 Investment in illiquid assets is acceptable to achieve long-term returns for the Fund, however, the overall level of illiquid assets should be carefully monitored and managed.

11 Selection of manager benchmarks is important, particularly for passive mandates where the characteristics of the benchmark should be considered carefully.

12 Active management can add value although the performance of active managers should be measured over a sufficiently long investment horizon.

13 Returns net of fees and costs are more important than the absolute level of fees, although investment managers' fees should be transparent and reviewed regularly.

14 Companies that demonstrate better Environmental, Social and Governance ("ESG") characteristics are expected to outperform other companies, over the longer term.

15 Engagement on specific ESG risks (such as climate change and executive pay), can be an effective way of promoting shareholder value.

Investment of money in a wide variety of investments

It is the Pensions Committee's policy to invest the assets of the East Riding Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

The Fund's strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market risk and the nature of the Fund's liabilities.

Asset class	Strategic allocation	Range	Maximum
EQUITIES	**50%**	**+/- 10%**	**60%**
UK equities	30%	+/- 5%	30%
Overseas equities	20%	+/- 5%	30%
North America	5%		
Europe ex-UK	5%		
Japan	3%		
Pacific ex-Japan	2%		
Emerging Markets	5%		
BONDS AND CASH	**20%**	**+/- 5%**	**30%**
UK Government bonds	5%		
IG Corporate bonds	5%		
Overseas bonds	4%		
Multi-Asset Credit	3%		
Cash	3%		
ALTERNATIVES	**30%**	**+/- 5%**	**35%**
Property	10%		
Other	20%		
Private Equity	6%		
Private Credit	4%		
Infrastructure	7%		
Other Alternatives	3%		

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment managers and independent advisor.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's investment managers will endeavour to bring the asset allocation back within the range within an appropriate period of time. The asset allocation will not be permitted to exceed the stated maximum for each asset class.

The suitability of particular investments and types of investments

The Pensions Committee will review the suitability of the asset allocation of the Fund on a quarterly basis, following advice from the investment managers and independent advisor to ensure the returns risk and volatility are appropriately managed and meet the requirements of the overall investment strategy.

It is intended that the Fund's investment strategy will be reviewed at least every three years following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The actuarial valuation, at 31 March 2019, was prepared on the basis of an expected return on assets of 4.19% with a 70% likelihood of being achieved over the long term. The Pensions Committee has set the investment objective of producing a nominal long term return of 5.5% p.a. (4.1% p.a. real) assessed on a rolling three year basis.

The Committee used the following long term assumptions about investment returns (as at February 2020) when determining an appropriate investment strategy, following the results of the latest actuarial valuation and advice from its investment managers and independent advisor:

Asset class	Expected return (% p.a.)	Expected Volatility (%)
EQUITIES		
UK equities	5.9%	17.0%
Overseas equities	6.0%	18%
BONDS AND CASH		
UK Government bonds	1.2%	10.0%
Investment Grade Corporate bonds	2.7%	6.1%
Overseas bonds	2.7%	10.0%
Multi-Asset Credit	6.0%	9.0%
Cash	0.82.2%	0.2%
ALTERNATIVES		
Property	5.7%	14.0%
Other		
Private Equity	8.4%	20.7%
Private Credit	6.0%	5.0%
Infrastructure	6.2%	14.0%
Other Alternatives	6.4%	9.5%

At February 2020, the expected return of this portfolio was 5.5% p.a. with an expected volatility of 11% p.a.

The Pensions Committee has set the following benchmarks against which performance of the Fund will be measured:

Asset class	Benchmark
EQUITIES	
UK equities	FTSE All Share
Overseas equities	
North America	FTSE Developed North America
Europe ex-UK	FTSE Developed Europe ex-UK
Japan	FTSE Japan
Pacific ex-Japan	MSCI Pacific ex-Japan
Emerging Markets	MSCI Emerging Markets
BONDS AND CASH	
UK Government bonds	FTSE UK Gilts All Stocks
UK Corporate bonds	iBoxx £ Corporate Bonds All Stocks
Overseas bonds	JP Morgan GBI ex-UK
Multi-Asset Credit	3 month LIBOR + 4%
Cash	LIBID 7 day
ALTERNATIVES	
Property	MSCIUK All Property Fund Index
Other	
Private Equity	FTSE All Share + 3%
Private Credit	3 month LIBOR + 4%
Infrastructure	UK Index-linked + 3%
Other Alternatives	3 month LIBOR + 5%

In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurements of the Fund's investments. This is provided by the Fund's custodian, State Street Global Services on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

The approach to risk

The Fund's primary long term risk is that the Fund's assets do not meet its liabilities i.e. the benefits payable to its members. Therefore, the aim of the Fund's investment management is to achieve the long term target rate of return with an acceptable level of risk. The Fund achieves this through setting the strategic asset allocation on a triennial basis, following the latest actuarial valuation, which is expected to achieve the target rate of return over the long term. The Fund's appetite for risk will vary depending on market conditions and the types of investments available to it but will be commensurate with meeting the long term target investment rate of return.

The Fund has a dedicated strategic risk register which identifies the key risks inherent in the Pension Fund, an estimate of the severity of each risk, and the risk controls that are in place to mitigate these risks. The risk register is reviewed by the Pensions Committee and the Local Pension Board on a semi-annual basis. In addition, a risk management schedule is reviewed by the Pensions Committee on a quarterly basis which considers issues such as performance, regulation and compliance, and personnel.

The key risks inherent in the Pension Fund, and how these risks are mitigated, are:

Risk	Description	Mitigants
Market	Value of an investment decreases as a result of changing market conditions.	Strategic asset allocation, with suitable diversification and appropriate ranges, determined on a triennial basis. Tactical asset allocation on a quarterly basis taking into account current market conditions. Derivatives may be used for portfolio management purposes or to hedge specific risks, in order to protect the value of the Fund's assets from risks that may materialise.
Performance	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis. Detailed analysis of investment managers' performance on an annual basis.
Valuation	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data.
Credit	The Fund's counterparties or service providers e.g. custodian fails to pay amounts due.	Appropriate credit limits are established, and regularly reviewed, by the Fund for individual counterparties. Regular performance monitoring of service providers and indemnities secured where appropriate.
Liquidity	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund maintains sufficient liquid funds at all times to ensure that it can meet its financial obligations.
Interest rate	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates, and may consider hedging, through the use of derivatives, in order to protect the value of the Fund's assets from risks that may materialise.
Foreign exchange	An adverse movement in foreign	The Fund regularly monitors its

	exchange rates will impact on the value of the Fund's investments.	foreign exchange exposure, and may consider hedging, through the use of derivatives, in order to protect the value of the Fund's assets from risks that may materialise.
Demographic	Changes, such as increased longevity or ill-health retirement, will increase the value of the Fund's liabilities.	Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis.
Regulatory	Changes to regulations and guidance may increase the cost of administering the Fund or increase the value of the Fund's liabilities.	The Fund ensures that it is aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
Governance	The administering authority is unaware of changes to the Fund's membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

Approach to pooling investments

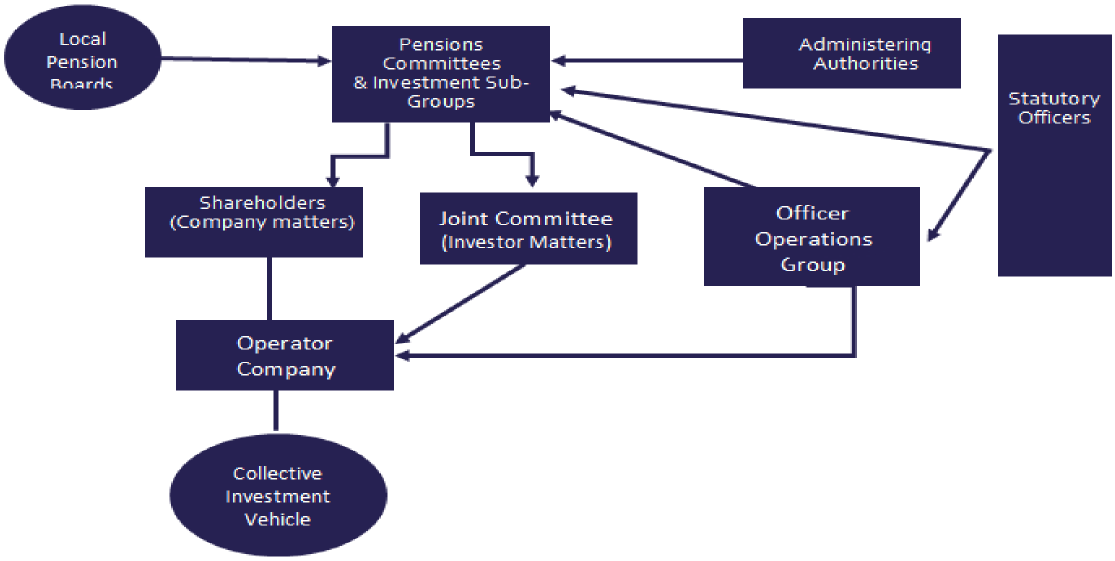
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015, East Riding of Yorkshire Council, as administering authority for the East Riding Pension Fund, is a shareholder in Border to Coast Pensions Partnership Limited (Border to Coast). Border to Coast is an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM").

Border to Coast is a partnership of the following administering authorities:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund

- Warwickshire Pension Fund

The governance structure of Border to Coast is as follows:



The Fund holds Border to Coast to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.

- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast.

- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Committee retains the decision making powers regarding asset allocation.

Border to Coast became fully operational in June 2018 and assets have transferred into the pool on a phased basis since then. Where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level. This is expected to predominantly include unquoted investments such as limited partnerships whilst other asset classes such as Fixed Income may remain with the internal manager or Schroders until such time as Border to Coast have developed an equivalent product. Whilst some assets are unlikely to be transferred, it is expected that once these investments mature the proceeds will be reinvested into Border to Coast. At the current time, it is estimated that c. 80% of the Fund's assets will be managed by Border to Coast within 3 years subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are determined to be held outside of Border to Coast to ensure that they continue to demonstrate value for money. Following this review, it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

Approach to environmental, social and governance (ESG) factors and exercise of rights attached to investments

Environmental, social and governance factors relate to non-financial factors that can have a material impact on the value of a Fund's investments. They include factors such as carbon emissions, labour relations and shareholder rights.

The Pension Fund, and its investment managers, considers that ESG considerations can have a material impact on the value of its investments. As a result, the consideration of ESG factors are incorporated into its investment managers' investment processes.

The overriding objective for the Pensions Committee will be to discharge its fiduciary duty in managing the Fund's investments in the best interests of the scheme's beneficiaries. The Fund will take non-financial considerations, including ESG factors, into account in the selection, retention and realisation of investments but not where it is considered to have a detrimental financial impact.

The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard.

It is considered that the Pensions Committee, which receives advice from its investment managers and independent advisor, represents the views of the Fund membership and that the views of the Local Pension Board will be taken into account as part of their review of this document.

Although the responsibility for ESG policy remains with Funds on an individual basis, it is considered to be more efficient and effective to determine a collective policy for the partner funds in Border to Coast Pensions Partnership. A single joint policy approach should result in greater influence, together with the greater scale of pooled investments, and enable the greater resources available to Border to Coast to be utilised efficiently. Furthermore, in practice, Border to Coast will exercise rights attached to investments on behalf of its investors and, therefore, there needs to be standard Border to Coast responsible investment and corporate governance policies which can be implemented by the company.

The East Riding Pension Fund has therefore adopted the following Border to Coast documents into its Investment Strategy Statement:

- Responsible Investment Policy – Appendix A
- Corporate Governance & Voting Guidelines – Appendix B
- UK Stewardship Code Compliance Statement – Appendix C

The Pension Fund's internal investment manager and Border to Coast will discharge their corporate governance responsibilities in accordance with these documents. The Pension Fund, through the Joint Committee and Officer Operations Group has, and will continue to have, input into the development of Border to Coast's corporate governance policies and activities.

The Fund's other current external investment manager, Schroder Investment Management Ltd, discharges its corporate governance responsibilities in accordance with its Investment and Corporate Governance Policy, which is also based on industry best practice.

The Fund's investment managers present reports on their voting activity on a quarterly basis to the Pensions Committee which are then subject to challenge and debate. The Pensions Committee also receives regular reports summarising the issues being raised by LAPFF and its current areas of focus, with companies in which the Fund has current ownership specifically highlighted, which further informs this process.

The Fund's investment managers can exercise their discretion not to vote in accordance with their respective policies. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee on a quarterly basis.

The Fund's investment managers may choose to be made insiders in a particular company for a short period of time. In these instances, no transactions are permitted to be made from the point of disclosure until the information has been disclosed to the wider market. The specific restrictions are disclosed in the Fund's investment managers' compliance documents.

Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

The Investment Strategy Statement of the East Riding Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate.

Investment Section

Council Offices

Goole

Effective Date 1 April 2020

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	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10th Oct 2018
V0.3	2nd draft reflecting OOG amendments	CEO	19th Oct 2018
V0.4	1st draft presented to IC and OOG reflecting review by Robeco, ICGN Governance Principles, best in class asset owners and managers	CEO	26th September
V0.5	2nd draft reflecting OOG amendments	CEO	18th Oct 2019

2. Approval and Sign Off

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

3. Board Approval

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

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-authorised 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	Human rights	Board independence/ diversity	Business strategy
Resource & energy management	Child labour	Executive pay	Risk management
Water stress	Supply chain	Tax transparency	Cyber security
	Human capital	Auditor rotation	Data privacy
	Employment standards	Succession planning	Bribery & corruption
		Shareholder rights	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 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.
- 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.

[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/

- 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 Code[2] and the UN Principles of Responsible Investment[3].

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 advisers

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 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

[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.

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 depositary.

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 complement 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 Compact[4] 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.

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

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 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.

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	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.	CEO	10th Oct 2018
V0.3	2nd draft reflecting OOG amendments	CEO	19th Oct 2018
V0.4	1st draft presented to IC and OOG reflecting review by Robeco, UK Corporate Governance Code, SRDII, best in class asset managers and owners	CEO	26th Sept 2019
V0.5	2nd draft reflecting OOG amendments	CEO	18th Oct 2019

2. Approval and Sign Off

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

3. Board Approval

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

4. Key Dates

Event	Date
Effective Date	01/01/2020
Next Review Date	01/01/2021

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 Hampton-Alexander 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.

UK Stewardship Code Compliance Statement

Border to Coast Pensions Partnership

January 2019

UK Stewardship Code Compliance Statement

Introduction

Border to Coast Pensions Partnership Ltd is an FCA alternative investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds) based on their strategic asset allocation through internally and externally managed sub-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.

Responsible Investment (RI) is central to Border to Coast's corporate and investment philosophy; this includes holding companies to account on environmental, social and governance (ESG) issues and practising active ownership across all asset classes. The Border to Coast Responsible Investment policy, which can be found on the website, details the approach to RI and stewardship which we will follow in fulfilling our fiduciary responsibility to Partner Funds. The Corporate Governance & Voting Guidelines (Voting Guidelines), also accessible on the website, set out the approach and principles to voting. The aim is to manage risk and generate sustainable, long-term returns for our Partner Funds.

This document describes the approach Border to Coast takes to stewardship, referenced against the seven Principles of the UK Stewardship Code.

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

As a long-term investor, Border to Coast takes its stewardship responsibilities seriously believing that effective active ownership leads to superior long-term returns. As a shareowner, we have a responsibility for effective stewardship of the companies we invest in, whether directly or indirectly through mandates with fund managers. We practice active ownership through voting, monitoring companies, engagement and ultimately if deemed necessary litigation.

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. ESG issues will be integrated into investment decision making across all asset classes. We use specialist data providers to monitor ESG risks across internally and externally managed portfolios which compliment financial, quantitative and risk analysis. For internally managed portfolios ESG data is used when conducting pre-buy analysis and for ongoing monitoring of portfolio companies.

We expect our external managers to adhere to the Border to Coast RI policy and be able to demonstrate the integration of ESG into investment processes. RI is a component of the external manager selection process and incorporated into the RfP and due diligence. External managers' portfolios are monitored for ESG risk with issues addressed at regular meetings.

As responsible investors we believe that the best way to influence companies is through engagement; therefore, the approach taken will be to influence companies by constructive shareholder engagement and the use of voting rights. Border to Coast has several strands to its engagement strategy. This includes direct engagement by members of the Investment and Research Teams of Border to Coast, with collaborative engagements conducted by Robeco, the third-party Voting and Engagement Partner, on our behalf. Border to Coast will vote across global equity holdings managed internally and externally, where possible. Voting will be administered by a specialist third-party provider according to the Border to Coast Voting Guidelines.

Responsible Investment which includes stewardship, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate our commitment to stewardship. As an organisation we are committed to transparency and disclosure; therefore, our Responsible Investment Policy and Corporate Governance & Voting Guidelines, which explain in detail our approach to Stewardship, can be viewed on the Border to Coast website at (web link)

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed

Border to Coast has a Conflicts of Interest policy which will be published as part of our Publication Scheme and is available on request. We work actively to continually achieve obligations under the FCA's Principles for Business, PRIN. Whilst all the Principles must be embodied in all of Border to Coast's work, the Principles of direct application to this policy are Principle 6 and Principle 8. The policy is reviewed and updated annually. All staff will receive compulsory and regular training to assist them in identifying, preventing or managing Conflicts of Interest. Personal account dealing and employees outside business positions and interests are addressed by the policy. Conflicts are included on the agenda at Board meetings.

We consider the following in managing Conflict of Interest:

- All reasonable steps must be taken to identify Conflicts of Interest that may result in a material risk of damage to a customer.
- Once identified, conflicts will be escalated to the Chief Risk Officer who will, as appropriate, refer the conflict to the Chief Executive Officer (and Board Chair or the Remuneration and Nomination Committee Chair in respect of Directors' interests).
- Once identified, Conflicts of Interest must be managed in a way that ensures the customers' interests are not adversely affected.
- Border to Coast has implemented internal controls and undertakes awareness raising and monitoring to assist in complying with the approved mitigation or relevant regulatory requirements.

Procedures and policies are in place which cover personal dealing and managing inside information. Information barriers are in operation to ensure that price sensitive information is not passed between different areas of the business. Market soundings can only be received by authorised persons who must then notify Compliance. A register is kept to record inside information when received by any member of Border to Coast staff. A restriction on dealing is then enforced for the investment manager and personal dealing by the member of staff until the information is made public.

Principle 3: Institutional investors should monitor their investee companies

Border to Coast has both internally and externally managed sub-funds. Internally managed funds are monitored by the respective portfolio managers with input from the Head of Equities, the Head of RI and the Research Team. To assist investment staff, research from a number of different providers is utilised; this includes research from sell-side brokers, economists, ESG data providers, proxy voting advisers and industry journals. Additionally, the opinions of NGOs, regulators, other industry bodies and stakeholders will be taken into consideration to give a more informed view.

External managers will be expected to monitor investments managed on behalf of Border to Coast. However, on an ongoing basis, the Border to Coast team will actively monitor market conditions and trends that may impact the performance of the Sub-Funds. Furthermore, on a regular basis the team will compile and review a series of quantitative metrics for all the underlying investment managers and their respective holdings. Managers will be challenged and held to account regarding investee companies, including on ESG issues. Finally, the team will complete a full due diligence for each portfolio manager to assess the strength, consistency, performance, and operations of the underlying funds, on a periodic basis. The due diligence will act as a full reassessment of each manager and will cover similar activities conducted in the original selection process.

All equity portfolios are screened for ESG risk with results used to drive deeper analysis and shape engagement.

Regular meetings are held with companies, other investors, stakeholders and industry professionals to monitor companies' business development and ESG risks and opportunities. Detailed records are kept of engagement meetings, voting and other ESG and stewardship related activities.

Border to Coast has an engagement strategy which consists of internal and external portfolio managers meeting with investee companies, collaborative engagement through investor RI initiatives, and engagements conducted by our Voting and Engagement Partner. We recognise we will not always be able to conduct effective engagement alone which is why collaboration is a strong feature of our engagement strategy. Issues which Border to Coast has engaged on include:

- Diversity
- Climate change
- Independence of non-executive directors
- Human Capital Management

Border to Coast is an active owner of its investee companies and will therefore use its voting rights carefully to influence corporate behaviour.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities

As a shareowner Border to Coast practises active ownership which involves engaging with companies and exercising voting rights to influence corporate behaviour, enhancing and protecting long-term returns. When an issue has been identified the first step will be to reach out directly to the company. This approach may vary depending upon where the company is based. Ideally, we will contact the Senior Independent Director or Chair. If this is not possible we will communicate through the Investor Relations Team or company broker. We believe the key to successful engagement is in building and maintaining relationships with investee companies and realise that some engagement may take place over an extended period.

We are mindful that it may be more effective for us to participate in collaborative engagement. This may be achieved through our membership of LAPFF, RI initiatives, collaboration with other interested investors, and via the Voting and Engagement Partner.

Border to Coast is focussing on a number of broad responsible investment themes which include high standards of corporate governance, transparency and disclosure and diversity. Issues that we have engaged collaboratively on include gender diversity, climate change, data privacy and corporate governance in Japan.

Border to Coast may also vote against management at AGMs, attend AGMs to ask questions and will consider co-filing shareholder resolutions. Where appropriate we will participate in shareholder litigation.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate

We acknowledge that in many cases joint engagement with other investors has the potential to effect greater change than acting alone. We will therefore seek to work collaboratively with other like-minded investors and bodies to maximise Border to Coast's influence on behalf of Partner Funds, where we consider this to be the most effective means of engagement. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups; each opportunity is assessed on a case by case basis. Border to Coast has appointed a third-party Voting and Engagement Partner, Robeco, who engage on our behalf across the internally managed global equity holdings. When carrying out engagement, Robeco do so collectively on behalf of their clients, therefore increasing Border to Coast's influence. This will not preclude Border to Coast engaging with companies alone on specific issues. We also expect external managers to engage with companies on our behalf. We are currently a member or supporter of the following collaborative initiatives:

Local Authority Pension Fund Forum

Workforce Disclosure Initiative

PLSA

Institutional Investor Group on Climate Change

30% Club Investor Group

Climate Action 100+

The contact for any potential collaborative engagement with Border to Coast is Jane Firth who can be contacted at jane.firth@bordertocoast.org.uk

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity

To have a greater influence and for operational reasons, it was deemed essential to have a collective voting policy in place at Pool level. This was developed in collaboration with all Partner Funds. Border to Coast has a policy to exercise its voting rights across all global equity holdings for both internally and externally managed sub-funds. Robeco has been appointed as the external Voting and Engagement Partner, to administer voting on our behalf, providing analysis and also advise when required. The Voting Guidelines are principle based and applied on a case by case basis. The Head of RI & Voting has the ability to override decisions following discussions with internal and external managers. If agreement cannot be reached the decision is referred to the Chief Investment Officer. The Voting Guidelines are reviewed and revised annually to reflect changes in industry best practice. Border to Coast respond to requests from companies on voting rationale and will, where possible, engage with companies prior to voting against a resolution. Summary voting activity is reported and disclosed on the website on a quarterly basis showing votes against and any votes cast contrary to policy with rationale. All votes are disclosed annually.

Border to Coast operates stock lending. Procedures are in place to restrict lending and stock will be recalled ahead of meetings when certain criteria detailed in the RI policy are met.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities

Border to Coast communicates its approach to Stewardship through its RI policy and Corporate Governance & Voting Guidelines; these documents are reviewed and updated annually to reflect changes in best practice.

A quarterly Stewardship publication is produced and published on the website. This includes detail on voting, engagement and market developments. The Active Ownership report prepared by the Voting and Engagement Partner contains voting highlights and coverage of engagement conducted on our behalf, available on the website. Border to Coast's Annual Report includes a section on Responsible Investment including a summary of annual voting activity. A separate standalone annual RI report is also produced. Voting activity is reported on a quarterly basis with annual disclosure of all votes on the website. All the aforementioned documents are shared with the Partner Funds to fulfil our stewardship obligations. Additionally, Border to Coast reports to Partner Funds on ESG in-line with their requirements and provides briefing papers on specific topics, themes and issues.

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