Notice of Meeting

Surrey Pension Fund Committee

Date & time	Place	Contact	Chief Executive
Friday, 16 December 2022 at 10.00 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Joss Butler joss.butler@surreycc.gov.uk	Joanna Killian We're on Twitter: @SCCdemocracy

Please note that the meeting will be held in public.
if you would like to attend or you have any special requirements, please email joss.butler@surreycc.gov.uk

The meeting will also be webcast live, and can be viewed here:
https://surreycc.public-i.tv/core/portal/webcasts

If you would like a copy of this agenda or the attached papers in another format, e.g. large print or braille, or another language please email joss.butler@surreycc.gov.uk

Members

Robert King (Borough & Districts), Nick Harrison (Chairman), David Harmer, Trefor Hogg (Vice-Chairman), George Potter, Richard Tear, Robert Hughes, Steve Williams (Borough & Districts), Kelvin Menon (Employers) and Philip Walker (Employees)

- **Our vision: To provide our customers with a better tomorrow**
- **Our mission: To responsibly deliver a first-class customer experience**

PART 1
IN PUBLIC

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING - 23 SEPTEMBER 2022 (Pages 1 - 16)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

(i) Any disclosable pecuniary interests and / or

(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest

- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)

- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (12 December 2022*)*.
2. The deadline for public questions is seven days before the meeting (9 December 2022*)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 ACTION TRACKER AND FORWARD WORK PROGRAMME (Pages 17 - 24)

To note the committee's action tracker and forward work programme.

6 LOCAL PENSION BOARD UPDATE (Pages 25 - 44)

This report provides a summary of administration and governance issues reviewed by the Local Pension Board (the Board) at its last meeting (11 November 2022) for noting or action by the Pension Fund Committee (the Committee).

7 INVESTMENT AND FUNDING UPDATE (Pages 45 - 62)

This report is a summary of manager issues for the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.

8 BORDER TO COAST UPDATE (Pages 63 - 166)

Border to Coast Pensions Partnership (BCPP) is now an established fully regulated asset management company when the authorised contractual scheme (ACS) went "live" on 26 July 2018. The Surrey Pension Fund started transitioning assets in quarter four of 2018 and continues this through 2022. This paper provides the Pension Fund Committee (Committee) with an update of current activity being undertaken by the Border to Coast Pensions Partnership (BCPP).

9 ASSET CLASS FOCUS - PRIVATE MARKETS (Pages 167 - 182)

As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes each quarter. This quarter the paper concentrates on private markets.

10 COMPANY ENGAGEMENT & VOTING (Pages 183 - 240)

This report is a summary of various Environmental Social & Governance (ESG) issues that the Surrey Pension Fund (the Fund), Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) have been involved in, for the attention of the Pension Fund Committee (PFC). The Fund is a member of LAPFF so enhances its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco has been appointed to provide voting and engagement services to BCPP, so acts in accordance with BCPP's Responsible Investment (RI) Policy, which is reviewed and approved every year by all 11 partner funds within the Pool.

11 CASH FLOW REVIEW (Pages 241 - 284)

Understanding the cash flow position of the Fund is vital regarding management and allocation of the assets such that pensions can be paid.

12 COMPETITION AND MARKETS AUTHORITY CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES (Pages 285 - 288)

Local Government Pension Schemes (LGPS) are required to set strategic objectives for their Investment Consultant (IC) Provider and monitor performance against these objectives.

13 RESPONSIBLE INVESTMENT NEXT STEPS (Pages 289 - 292)

A key priority of the Pension Fund Committee (PFC) is to approve the Responsible Investment (RI) policy after considering the consultation feedback and set a net zero date consistent with its fiduciary responsibility of meeting pension liabilities.

14 DEPARTMENT OF LEVELLING UP, HOUSING & COMMUNITIES CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISK (Pages 293 - 308)

To provide details of the Department for Levelling Up, Housing & Communities (DLUHC) consultation on Governance and Reporting of Climate Change Risk and the response from Surrey.

15 2022 VALUATION (Pages 309 - 340)

This report provides an update on the progress of the 2022 triennial valuation.

16 LGPS UPDATE (BACKGROUND PAPER) (Pages 341 - 348)

This report considers recent developments in the LGPS.

17 EXCLUSION OF THE PUBLIC

Recommendation: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

PART 2
IN PRIVATE

18 INVESTMENT STRATEGY REVIEW (Pages 349 - 386)

The Pension Fund is reviewing its Investment Strategy in accordance with the 2022 valuation, taking into account its investment core beliefs and in line with the asset offerings of Border to Coast Pensions Partnership (BCPP). This paper presents analysis on the geographic allocation of equities for review.

Part 2 Reason:

All the investment strategy papers and annexes are part 2 as they contain market sensitive information in that they suggest future transactions. No future transactions should be in the public domain.

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

19 **INVESTMENT AND FUNDING UPDATE** (Pages 387 - 388)

This is the part 2 annex for item 7.

Part 2 Reason:

The fees annexe of the investment and funding paper is part 2 as we list all the fees we pay to all our investment providers which is confidential.

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

20 **BORDER TO COAST UPDATE** (Pages 389 - 394)

This is the part 2 annex for item 8.

Part 2 Reason:

The Inter Authority Agreement and Shareholder Agreement and advice from Squire Patton Boggs relating to these documents contain information relating to the confidential financial or business affairs of all 11 administering authorities who are shareholders of Border to Coast Pension Partnership and Joint Committee members of Border to Coast. These annexes are therefore deemed exempt under Paragraph 3.

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

21 **COMPETITION AND MARKETS AUTHORITY CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES** (Pages 395 - 402)

This is the part 2 annex for item 12.

Part 2 Reason:

The CMA scoresheet annex is part 2 as there is a private scoring system of the consultant that shouldn't be in the public domain and a summary of conversations of how the scores were arrived at and the mercer response.

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

22 **PUBLICITY OF PART 2 ITEMS**

To consider whether the item considered under Part 2 of the agenda should be made available to the Press and public.

23 **DATE OF NEXT MEETING**

The next meeting of the Surrey Pension Fund Committee will be on 10 March 2023.

Joanna Killian
Chief Executive
Published: 8 December 2022

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, the Council has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 23 September 2022 at Woodhatch Place, Reigate.

These minutes are subject to confirmation by the Committee at its next meeting.

Members:
*= in attendance

- * Nick Harrison (Chairman)
- * David Harmer
- * Trefor Hogg (Vice-Chairman)
- * George Potter
- Richard Tear
- * Robert Hughes
- Robert King, Borough & Districts
- * Steve Williams, Borough & Districts
- Kelvin Menon, Employers
- Philip Walker, Scheme Members

42/22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Phillip Walker.

Tim Evans, Chairman of the Surrey Local Pension Board, attended the meeting.

43/22 MINUTES OF THE PREVIOUS MEETING [17 JUNE 2022] [Item 2]

The Assistant Director – Local Government Pension Scheme (LGPS) Senior Officer highlighted to members that the People, Performance and Development Committee had approved the appointment of the Independent Chairman of the Local Pension Board.

The Minutes were approved as an accurate record of the previous meeting.

44/22 DECLARATIONS OF INTEREST [Item 3]

There were none.

45/22 QUESTIONS AND PETITIONS [Item 4]

There were five questions from five members of the public. These and the responses were published as a supplement to the agenda. Supplementary questions and responses included:

1. Jennifer Condit asked on behalf of Lucianna Cole: was it the council's intention to publish all of the replies, including replies that were supplemental to filling out the questionnaire.

   The Chairman responded that it was normal practice to publish the replies received including the supplementary replies provided in the free-format

box and additional letters or emails. The LGPS Senior Officer stated that detail would be confirmed on how the responses could be accessed.

In regard to the consultation questionnaire, Cllr Williams stated that various points of concern had been raised on the consultation process during discussion at the previous meeting on the timing, nature of the consultation and the possibility of one of more public consultation events. When reading the consultation questions, Cllr Williams stated that he had come to the view that the consultation was a sham and should be restarted. There were also two questions that had been raised and discussed at committee which were not included on the consultation form. This included 1. Do you believe that the Surrey Pension Fund should take immediate steps to divest from fossil fuels? And 2. At what point should the Surrey Pension Fund aim to become a net-zero carbon fund. Should it be 2030, 2035, 2040 or 2050. Cllr Williams stressed that these questions should be included and that the consultation process should be stopped and restarted.

The Chairman confirmed that, following comments made by members of the committee, and as the consultation had already begun, item 16 would be discussed in public. Cllr Potter was concerned that the item was originally due to be held in private, and stressed that he did not agreed with the decision to launch the consultation prior to approval from the Committee, and furthermore, that the consultation was not delayed due to the death of Her Majesty The Queen.

2. Jennifer Condit asked on behalf of Kevin Clarke: Mole Valley was not any employee but rather one of the 11 district and borough councils and as an employer it contributed over £2 million to the scheme last year and employees contributed over £600,000 and therefore the district council's view should have some weight, rather than just referring them to the public consultation on the policy. Furthermore, the fact that the policy did not specify a net-zero carbon date would mean that they would not find an answer within the consultation that aligned with their view.

   The Chairman responded that they were asking all employers for input and that all feedback was important. All feedback would be taken into account and a response would be provided following the end of the consultation.

   Cllr Williams reiterated the need to restart the consultation and also stated that there could be a need for a specific consultation between the district and boroughs within Surrey.

   Cllr Potter raised concern that an employer of the Surrey Pension Fund had raised an issue separate from the consultation and the response was to ask that the district council provide feedback within the consultation, rather than responding separately. The Chairman confirmed that the service would be responding specifically to Mole Valley after the meeting.

3. Lindsey Coeur-Belle asked on behalf of Clive Teague: Border to Coast Pensions Partnership have said "infrastructure is a key asset class of our partner funds as they seek attractive investment opportunities and diversification of risk". What is the carbon profile of the Surrey investments

in the above funds, and can the committee assure the public that no investments from this fund is for fossil fuel exploration or extraction.

The LGPS Senior Officer asked that the member of the public write to the council to receive a detailed response, which was agreed.

Cllr Potter said he was surprised to read that the climate opportunities fund did not have any specific exclusion against investment in fossil fuel exploration or extraction and asked for clarification from the fund managers as to why the fund did not contain the exclusion. The Chairman agreed to receive an update on this at the next meeting.

4. Lindsey Coeur-Belle asked: we are facing an environmental and ecological emergency requiring immediate action. We can also add a climate scandal. We know the fossil fuel industry has acted immorally. We know that they have been aware for at least 40 years of the damaging impact on climate that burning fossil fuels would have. The public are now aware and may well ask members of this committee how long will they collude with the fossil fuel industry to destroy this planet, our home.

   The Chairman responded that a response had been provided to the original question about adopting the Responsible Investment Policy, subject to consultation.

5. Jenifer Condit asked: do you see an opportunity to vary the nature of the engagement activity you undertake when you are confronted with such a very specific aggreges form of financing activity by the banks and companies creating such misery in the world, and in Surrey.

   The Chairman responded that the scheme's key means of engagement was with the Local Authority Pension Fund Forum (LAPFF) and that they had been urged to focus on the role of banks, and would remind them of this during future meetings.

   Cllr Potter ask why the scheme was not expressing to the Border to Coast Pension Partnership that there was concern about specific investments in financing Russian carbon projects. The Chairman agreed to engage with Border to Coast on this.

Actions / Further information to be provided:

Action A2/22 - Cllr Potter said he was surprised to read that the climate opportunities fund did not have any specific exclusion against investment in fossil fuel exploration or extraction and asked for clarification from the fund managers as to why the fund did not contain the exclusion. The Chairman agreed to receive an update on this at the next meeting.

A3/22 - Cllr Potter ask why the scheme was not expressing to the Border to Coast Pension Partnership that there was concern about specific investments in financing Russian carbon projects. The Chairman agreed to engage with Border to Coast on this.

46/22 FORWARD PLAN AND ACTION TRACKING [Item 5]

Speakers:
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted that the forward plan was currently showing only the next two meetings as the items included were reliant on the approval of the 2023/24 business plan.
2. In regard to A8/21, Cllr Potter stated that they would prefer that year-on-year progress regarding responsible investments (RI) was still included within future annual reports, however noted that it may not be possible to provide details within this year's annual report as development of the RI policy was ongoing. The LGPS Senior Officer stated that this would be explored as part of the implementation of the RI policy.

Resolved:

The Committee noted the report.

47/22 LOCAL PENSION BOARD REPORT [Item 6]

Witnesses:
Tim Evans, Independent Chairman of the Local Pension Board

Key points raised during the discussion:

1. The Independent Chairman introduced the report and stated that the board continued to be assiduous in its questioning of officers regarding the governance and administration of funds. Attention was drawn to the revisions of the risk register, and completion of the turnaround programme.

Actions/ further information to be provided:

None.

Resolved:

The Committee accepted the changes to the risk register.

48/22 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 7]

Witnesses:
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced the report and provided a brief overview.
2. Cllr Harmer asked how the discount rate was managed in the current circumstances. The LGPS Senior Officer confirmed that the evaluation had considered the long-term interest rate and inflationary elements.

In addition, the investment strategy review, investment consultants and actuaries were working towards cashflows in light of current inflationary pressures.

3. Cllr Williams asked, in view of the rapidly changing economic environment, when the current algorithm for trends in long term interest rates was set and whether there was an intention to reset it. The LGPS Senior Officer said this information would form part of the update and evaluation report once the evaluation was approved by the committee.
4. Cllr Potter said there was no room for complacency in the current climate.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the main findings of the report in relation to the Fund's valuation and funding level, performance returns and asset allocation.

49/22 COMPANY ENGAGEMENT & VOTING [Item 8]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The LGPS Senior Officer and Head of Investment & Stewardship introduced the report and provided a brief overview. The report could be found from page 59 of the agenda.
2. The Committee thanked officers for the comprehensive report.
3. In regard to engagement, Cllr Potter asked whether there were any cases where engagement had concluded and escalation was being carried out. The Head of Investment & Stewardship said that they could ask Border to Coast whether there were any specific areas on this. Legal and General did have a list of companies where they take exclusion and it was believed that there were 13 companies who would claim to be in that position. Furthermore, Members noted that, during the last annual review, Legal and General had excluded one additional company.
4. The Chairman highlighted that Legal and General's website included information on companies that had been excluded and the reasons why.
5. Cllr Williams asked for more information on the Corporate Action resolution category. The Head of Investment & Stewardship agreed to provide information outside the meeting.

Actions/ further information to be provided:

Action A4/22 - In regard to engagement, Cllr Potter asked whether there were any cases where engagement had concluded and escalation was being carried out. The Head of Investment & Stewardship said that they could ask Border to Coast whether there were any specific areas on this.

Action A5/22 - Cllr Williams asked for more information on the Corporate Action resolution category. The Head of Investment & Stewardship agreed to provide information outside the meeting.

Resolved:

The Pension Fund Committee:

1. Reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through:
   a) Continuing to enhance its own Responsible Investment approach, its Company Engagement policy, and SDG alignment.
   b) Acknowledging the outcomes achieved for quarter ending 30 June 2022 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 June 2022.
   C) Noting of the vote by the Surrey Pension Fund in the quarter ended 30 June 2022.

50/22 ANNUAL REPORT 2021/22 [Item 9]

Witnesses:
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced the report and provided a brief summary. Members noted that the report provided an update to the production of the 2021/22 Pension Fund Annual Report.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the content of the draft Annual Report, shown as Annex 1, and that the final version of the report was to be completed in consultation with the Chair.

51/22 2022 VALUATION [Item 10]

Witnesses:
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced the report and provided a brief summary. Members noted that the valuation was on track and that a meeting was scheduled with larger employers to discuss early results which included Boroughs, Districts, the Police and Surrey County Council.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the report from Hymans Robertson, on the approach to the revisions to the Funding Strategy Statement, included as Annex 1 of the report.

52/22 LGPS UPDATE (BACKGROUND PAPER) [Item 11]

Witnesses:
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced the report and provided a brief summary. Members noted that Government had launched the consultation on TCFD for the Local Government Pension Scheme (LGPS) and that a response would be provided and shared with the Chairman of the Committee.
2. The LGPS Senior Officer stated that training courses on Fundamentals, and a government seminar run by the Scheme Advisory Board, were recommended for members of the Committee and also members of the Local Pension Board. Members were asked to contract the pension team for more information.
3. The Chairman stated he had requested officers include a summary of key points for attention within future reports.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the report.

Chairmans comments on agenda order

The Chairman informed the Committee that, following comments made by Members, Items 15, 16, 17 and 20 would be considered in public.

Cllr Potter raised concerns with the reasoning behind initially deciding to consider items 15, 16, 17 and 20 in private and requested clarification on the category selected to describe the reason for considering the information exempt. The Member went on to stress the democratic importance for marking information exempt only when necessary. The Chairman confirmed that the information had been marked exempt under Paragraph 3, which was for information relating to the financial or business affairs of any particular person (including the authority holding that information). The Member further stated that Part 2, Paragraph 8 of Schedule 12A of the Local Government Act 1972 gave exemptions to Paragraph 3 (exempt information category) and that the council was possibility acting unlawfully by considering the item's cover reports as exempt information. The LGPS Senior Officer stated that he would speak with Legal and Democratic Services to discuss reasons for report publishing exemptions going forward.

Cllr Williams felt it was unfortunate that the public had not been able to access the previously exempt reports prior to the meeting, and requested that future exempt reports were provided with clear justification for their exemption. The Chairman stated that going forward justifications would be provided, and that the unrestricted reports from the meeting would be published within a supplementary agenda.

53/22 ASSET CLASS FOCUS - REAL ESTATE [Item 15]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced the report and provided a brief summary. Officers stated CBRE were doing well and, this year, their presentation was better than in the previous year. Officers however stated that CBRE had presented the Global Fund as of the end of March 2022, and the UK Fund as of the end of June 2022, which made comparison difficult with the volatility of Sterling through recent years. It was felt that for future reporting periods it would be helpful if CBRE could report on the same 12 month period. In regard to Board to Coast, officers started there is a proposal to offer a global solution, similar to CPRE's approach, and a UK solution, which was considered attractive by officers, however there was still work to do to ensure it was a lower cost solution.
2. In regard to the proposed property fund, a Cllr Potter asked whether there would be the right balance of Global property investments and UK property investments and whether the Fund would have an input into the decision. The LGPS Senior Officer confirmed there was currently a 50% allocation to the UK and a 50% allocation to Global and that this was being reviewed as part of the Investment Strategy. Furthermore the Funds officers and advisors would be involved in the process and one of the conditions prior to any transition would be to receive a suitability report from, the investment consultant, Mercer.

Members further noted a formal decision would be brought to a future Committee meeting on how much to allocate.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted the Fund's Real Estate holdings, respective funds' investment performance and review from the Fund's independent investment adviser.

54/22 RESPONSIBLE INVESTMENT POLICY UPDATE [Item 16]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship
Mel Butler, Investment Strategy Manager
Amanda Jupp, Communications and Training Manager

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced the report and provided a brief summary. Officers noted the consultation had started in the previous week and would run for six weeks and complete on 23 October 2022. Around 110,000 people were being engaged by email. Full details would be found in the supplementary agenda published on 24 September 2022.
2. Members noted that the Responsible Investment Policy was approved at the Pension Fund Committee meeting of 17 June 2022, subject to consultation.
3. Cllr WIliams stated the launch of the consultation was inappropriate as it should have been brought to the Committee prior to launch. The Member further stated there were a number of points related to the process, and the questions being asked within the consultation needed to be raised, and further stressed the consultation had started without the approval of the Committee.
4. In regard to the report's recommendations, Cllr Potter said they believed the recommendations had been changed from when the report was previously published prior to the original meeting being postponed.
5. A Member of the Committee said that the committee had previously approved the Responsible Investment Policy of 17 June 2022, subject to consultation, however the format of the consultation was not approved.
6. Cllr Hughes stated they felt the consultation should be constructed by experts rather than Members of the Committee and officers had carried out the consultation as previously agreed by the Committee.
7. Cllr Potter said it was good practice for the relevant committee to receive a copy of a consultation prior to publication.
8. Cllr Potter sated it was inappropriate that internal email updates had been paused out of respect for the death of Her Majesty The Queen, however the consultation still continued to be published during the period of mourning. The Member suggested that the consultation be

paused to allow the committee to discuss it properly. The Chairman responded there was pressure to publish the consultation and it was understood that, during the period of mourning, certain business-as-usual should continue.

9. Cllr Williams said that the Committee had previously agreed the nature of the Responsible Investment Policy to be consulted on, not the consultation itself, and it was assumed that the consultation process would still be approved by the Committee. The Member further stated that they believed the consultation should be paused to allow for further discussion.
10. The Chairman stated that he felt the consultation had been published in line with what was previously agreed. Officers had also consulted with and gained approval from the Chair and Vice-Chair regarding the consultation process, further to receiving expert advice from their engagement advisors, Minerva, and the Council's internal team changed with ensuring that consultations are carried out effectively and compliantly.
11. The LGPS Senior Officer explained that the Chairman was consulted and advice was sought from senior officers in the organisation as to whether the substantive work could progress during the period of mourning. The LGPS Senior Officer further said he was prepared to take criticism on whether the consultation should have been launched during the period of mourning and that this was something officers would take on board.
12. Cllr Potter reiterated their view that it was inappropriate to launch the consultation and stressed that, at the very least, the consultation should be extended.
13. In regard to the consultation itself, Members made the following comments:
    a. Cllr Williams stated that clarification was needed on whether there would be any direct consultation or sessions with key stakeholders such as the borough and district councils. The Chairman confirmed there were no plans for a meeting with borough and district councils on this. The Member reiterated a meeting with the councils should be incorporated into the consultation process. Another Member of the Committee agreed it would be worthwhile to have a specific engagement activity with the employers, in particular, with the borough and district councils.
    b. Cllr Williams said that a question related to whether the consultee believed the Surrey Pension Fund should take immediate steps to divest from fossil fuels should have been included within the consultation.
    c. Cllr Williams said that that a question should have been included within the consultation related to the point in which the consultee believed the Surrey Pension Fund should become a net-zero carbon fund. 2030, 2035, 2040 or 2050.
    d. In regard to Question I of the consultation, related to the 'engagement with Consequences' approach, Cllr Potter said that a question was needed on whether divestment action should be taken in specific areas in order for Question I to be worthwhile.
    e. Cllr Potter said that research suggested 'agree' or 'disagree' questions within a consultation were loaded questions.

f. In regard to Question H of the consultation, related to climate risk, Cllr Potter said that there were no questions included on what net-zero should look like and what the timescale should be and so Question H was not worthwhile.
g. Cllr Potter said that Question H and Question I were useless unless the wording was amended. Therefore the Members stated the consultation should be amended or relaunched.
h. That every question within the consultation should include a comment's box to allow the consultee to provide detail on their reasons for agreeing or disagreeing.

14. The Chairman stated creating a consultation was complicated and officers took best advice from the experts and that the consultation questions closely followed the draft Responsible Investment policy.
15. Cllr Williams reiterated it would be reasonable to hold a consultation meeting with representatives from employers and a representative of their employees.
16. Cllr Tear said it was a reasonable suggestion to extend the consultation, however a relaunch may confuse consultees and negatively impact the number of responses received.
17. Cllr Potter suggested that, in the event the consultation was not restarted, supplementary questions covering additional topics on what net-zero means for the consultee and timescales around this, should be included. The Chairman stated the Responsible Investment policy did not include a target date for net-zero and so it would not be appropriate to include a question on it within the consultation. Cllr Potter said that the policy would develop this and therefore it would be legitimate to include a question on it.
18. Cllr Potter reiterated that 'agree' and 'disagree' questions within consultations were not best practice.
19. Cllr Williams proposed the consultation was restarted. In response, another member of the committee raised concerns that a restart of the consultation could cause confusion and potentially bias the results.
20. The committee discussed the option of extending the consultation by two weeks. During the discussion, Cllr Hogg stated it would also be valuable to circulate a reminder to consultees to complete the consultation.
21. Cllr Potter stated that, as restarting the consultation was not a popular decision on the committee, he would suggest extending the consultation and circulating a reminder, but stressed there was a need to include a supplementary question related to net-zero and divestment.
22. Cllr Williams whether a two week extension was a suitable time period to circulate a consultation with supplementary questions and to organise a stakeholder meeting to consult employers directly. The Member further stated he did not believe a two week extension to be suitable and therefore a consultation relaunch was necessary. The LGPS Senior Officer stated he needed to discuss with colleagues the impact of a consultation extension.
23. The Chairman stated he supported a two week extension and circulation of a consultation reminder but did not support the addition of a supplementary question on net-zero. The reason for this is because there was a need to develop a view of net-zero before consulting on the topic. Following further discussion, the Chairman assured Members the committee would debate a topic on a net-zero target date when appropriate.

24. Cllr Williams moved a motion, seconded by Cllr Potter, to restart the consultation, and to include a question on net-zero as previously discussed. It was agreed to hold a recorded vote. Steve Williams and George Potter voted For the proposal. Nick Harrison, Trefor Hogg, David Harmer and Robert Hughes voted Against the proposal. There were no Abstentions. Therefore the motion was lost.
25. The Chairman moved a motion to extend the consultation by two weeks, to circulate a reminder to consultees to complete the consultation, to note a possibility of an extra committee meeting to take the consultation extension into account, and, following reaching a conclusion on net-zero, to consider whether a consultation was necessary. It was agreed to hold a recorded vote. Steve Williams, George Potter, Nick Harrison, Trefor Hogg, David Harmer and Robert Hughes voted For the motion therefore it was unanimously carried.

Actions/ further information to be provided

Action A6/22 - To extend the consultation by two weeks, to circulate a reminder to consultees to complete the consultation, to note a possibility of an extra committee meeting to take the consultation extension into account, and, following reaching a conclusion on net-zero, to consider whether a consultation was necessary.

Resolved:

It was agreed to extend the consultation by two weeks, to circulate a reminder to consultees to complete the consultation, to note a possibility of an extra committee meeting to take the consultation extension into account, and, following reaching a conclusion on net-zero, to consider whether a consultation was necessary.

55/22 TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT [Item 17]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship
Steve Turner, Mercer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced the report and provided a brief summary. The Committee were reminded that the consultation on TCFD from the Government had recently been issued and that a response would be provided. The representative from Mercer explained that they would support issuing the TCFD report as is, subject to any suggested changes. Looking ahead, officers stated that there were in a good position to provide reports in the future.

Actions/ further information to be provided:

None.

Resolved:

It was agreed that the Committee approve the Surrey Pension Fund TCFD report for the financial year 2021-22.

56/22 NET ZERO CONSIDERATIONS [Item 20]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship
Steve Turner, Mercer

Key points raised during the discussion:

1. The representative from Mercer introduced the report and provided a brief summary of the presentation annexed to the cover report. The presentation noted by Members was published in a supplementary agenda on 24 September 2022.
2. Cllr Harmer said that they believed it was difficult to assess and conclude which areas to invest in and asked whether there was any documentation which assessed what life would look like in 2030, 2040 and 2050 to aid decision making. The representative from Mercer said they did not have the information available however, when conducting research, an approach was taken that having real world change was about changing behaviours of individual companies, as all would have an impact on global warming.
3. Cllr Williams asked whether views on net zero considerations were based on the current or future prospects. Officers explained that it was challenging to predict which companies would have the greatest impact on reducing the global carbon footprint. Members noted that officers would expect the investable universe of companies targeting 1.5c / 1.4c, for example, to increase overtime. However it was difficult to predict which specific companies would set a target and how it would be implemented.
4. Cllr Potter highlighted that the report provided information on an example portfolio made up of 1.5c aligned and net zero investments, however, the Member stated that the detail actually needed was information on the pathway which needed to be followed to become 1.5c aligned and net zero. In regard to the recommendation 1, the Member said that there was no analysis on the pathway to carbon net zero to consider. In regard to recommendation 2, the Member said that it was uninformed by advice or evidence and that they would be against confirming a net zero target date without consideration of the appropriate analysis on the implications. In response, the representative from Mercer explained that it was extremely difficult to provide the requested analysis and Mercer were unlikely to be in a position to provide it, and that the analysis circulated was provided to give the Committee a feel of the potential risk implications of targeting very ambitious timeframes for net zero earlier than 2050.
5. Following discussion, the Chairman proposed that the Committee move forward by noting the analysis provided but to withdraw Recommendation 2 for the time being. This proposal was agreed by the Committee.
6. Cllr Potter asked for detail on how the list of companies to be aligned with 1.5c had expanded within the last two and five years. Officers stated that they would expect the universe of companies aligned to

expand and that the level of expansion would be greater than it was previously. Officers agreed to provide a response outside the meeting.

7. Cllr Williams said that they would welcome further analysis of how the investment universe of companies aligned with 1.5c or below would be expanded in the future.

Actions/ further information to be provided:

Action A7/22 - Cllr Potter asked for detail on how the list of companies to be aligned with 1.5c had expanded within the last two and five years. Officers stated that they would expect the universe of companies aligned to expand and that the level of expansion would be greater than it was previously. Officers agreed to provide a response outside the meeting.

Resolved:

The Committee noted the analysis of the Fund's investment consultant, Mercer, in respect of a pathway to carbon net zero.

57/22 EXCLUSION OF THE PUBLIC [Item 12]

Resolved: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

PART TWO – IN PRIVATE

58/22 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 13]

Witnesses:
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The Committee considered a Part 2 report that provided an investment manager performance and asset/liabilities update.

Actions/ further information to be provided:

None.

Resolved:

The Committee noted the report.

59/22 COMPANY ENGAGEMENT & VOTING [Item 14]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Committee considered a Part 2 report that provided an update on company engagement and voting.

Actions/ further information to be provided:

None.

Resolved:

See Exempt minute - E-26-22

60/22 BORDER TO COAST PENSIONS PARTNERSHIP UPDATE [Item 18]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Committee considered a Part 2 report that provided an update on the Border to Coast Pensions Partnership.

Actions/ further information to be provided:

None.

Resolved:

See exempt minute – E-27-22

61/22 BORDER TO COAST PENSIONS PARTNERSHIP PATHWAY TO NET ZERO [Item 19]

Witnesses:
Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Committee considered a Part 2 report that provided an update on the Border to Coast Pensions Partnership Pathway to Net Zero.

Actions/ further information to be provided:

None.

Resolved:

See Exempt minute - E-28-22

62/22 PUBLICITY OF PART 2 ITEMS [Item 21]

The Chairman highlighted that, following comments made by Members, Items 15, 16, 17 and 20 would be considered in public and papers published on the public website.

63/22 DATE OF NEXT MEETING [Item 22]

The date of the meeting was noted.

Meeting ended at: 13:40

____

Chairman

SURREY
COUNTY COUNCIL

Surrey Pension Fund Committee
16 December 2022

RECOMMENDATIONS TRACKER AND WORKPLAN

PURPOSE OF REPORT:

For Members to consider and comment on the Committee's recommendations tracker and workplan.

INTRODUCTION:

A recommendations tracker recording actions and recommendations from previous meetings is attached as Annex A, and the Committee is asked to review progress on the items listed. The Committee's workplan is attached as Annex B for noting.

RECOMMENDATION:

The Committee is asked to:

1. Monitor progress on the implementation of recommendations from previous meetings in annex A.
2. Review the workplan in annex B and any changes to it.

REPORT CONTACT: Joss Butler, Committee Manager
joss.butler@hotmail.co.uk

Sources/background papers: None

This page is intentionally left blank

Annexe A

Surrey Pension Fund Committee Action Tracker

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
A8/21	10/09/2021	Draft Annual Report 2020/21 and Statement of Accounts	That next year's report shows the year-on-year progress regarding responsible investments.	Strategic Finance Manager Sept 2022	**Work on Ri policy supersedes this action**
A2/22	23/09/22	Questions & Petitions	Fossil Fuels exploration or extraction, - update fund did not contain the exclusion	Head of Investments & Stewardship December 2022	**Border to Coast will be available at the meeting 16 December 2022**
A3/22	23/09/22	Questions & Petitions	Investments financing Russian carbon projects	Chairman December 2022	**Chair to raise the question at the next joint Committee of Border to Coast**
A4/22	23/09/22	Company Engagement	Cllr Potter requested more information on corporate action resolution category.	Head of Investments & Stewardship December 2022	**Officers to contact Border to Coast and provide details to requesting member of Committee.** **Completed**
A5/22	23/09/22	Net Zero Considerations	Cllr Williams asked for more information on the Corporate Action resolution category.	Head of Investments & Stewardship December 2022	**Provide this information outside the meeting** **Completed**

Annexe A

Surrey Pension Fund Committee Action Tracker

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
A6/22	23/09/22	Responsible Investment Policy Update	To extend the consultation by two weeks, to circulate a reminder. to consultees to complete the consultation, Possibility of an extra committee meeting to take the consultation extension into account, and, following reaching a conclusion on net-zero, to consider whether a consultation was necessary.	Head of Investments & Stewardship December 2022	
A7/22	23/09/22	Net Zero Considerations	Cllr Potter a Committee Member asked for detail on how the list of companies to be aligned with 1.5c had expanded within the last two and five years.	Head of Investments & Stewardship December 2022	**Officers agreed to provide a response outside the meeting.** **Completed**

Annexe A

Surrey Pension Fund Committee Action Tracker

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

A1/22	10/03/2022	Local Pension Board Report	That the Committee and Board Members receive newsletters by email or be sent the link when published.		**COMPLETED**

This page is intentionally left blank

Annexe B: Surrey Pension Fund Committee: Forward Plan

Standing Items
a) Border to Coast Update Investment & Stewardship / Accounting & Governance b) Investment and Funding Update Investment & Stewardship / Accounting & Governance c) Local Pension Board Update Accounting & Governance / Service Delivery d) Engagement and Voting Update Investment & Stewardship e) LGPS update paper Accounting & Governance

Additional items				
Date	**Investment**	**Change Management**	**Accounting & Governance**	**Service Delivery**
December 2022	a) CMA review of consultant strategic objectives b) Asset class focus – Private markets c) Investment Strategy Review d) Response to the DLHC consultation on TCFD reporting for the LGPS e) Cash flow Review f) Investment Strategy review updates		a) 2022 valuation update	

	g) DHLC Consultation on TCFD reporting for LGPS h) Responsible Investments next Steps i) Border to Coast Governance Review Update			
March 2023	a) Responsible Investment - Net zero updating - Results from Consultation b) policy, subject to consultation c) Investment Strategy review – Currency hedging updates d) Asset class focus – Credit markets e) Responsible investments implementation plan f) Border to Coast – Property Update			

All items are subject to review and content, other items for the forward plan to be added and confirmed in line with the business plan scheduled for approval in March 2023

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCE & COMMERCIAL**

SUBJECT: **SUMMARY OF THE LOCAL PENSION BOARD REPORT**

SUMMARY OF ISSUE:

This report provides a summary of administration and governance issues reviewed by the Local Pension Board (the Board) at its last meeting (11 November 2022) for noting or action by the Pension Fund Committee (the Committee).

RECOMMENDATIONS

This report recommended that the Pension Fund Committee:

1. Notes the content of this report.

REASONS FOR RECOMMENDATIONS:

The Public Sector Pensions Act 2013 requires Local Pension Boards to assist the Scheme Manager in securing compliance with the Local Government Pension Scheme (LGPS) Regulations and requirements imposed by the Pensions Regulator. This report provides the Committee with insight into the activities of the Board and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

This meets the Fund's strategic governance and delivery objectives.

DETAILS:

Forward Plan

1. Items 4a Sight of response to DLUHC from Chairs (B2C, JC and Officers Pension Group (OPG)), 4b Sight of RI Policy consultation responses, Circulation of Investment papers (Part 2) -4c. Circulation of Investment papers (Part 2) had been added to the forward plan at the request of the Chair. To track progress these items will now move to the Action Tracker.

2. An ongoing action is for the Board to complete the knowledge training. This is also an area considered by audit.

3. The business plan is currently being worked through and forms a part of the forward plan this will be updated accordingly in early 2023.

6

Risk Registers Update 2022/23 Quarter 2

4. The below commentary was highlighted to the Pension Board Members on the three risk areas in the risk register with the highest combined likelihood and impact scores.

Risk	**Implementation of new financial systems leads to delayed processing, data integrity issues or financial loss**	**Skills / knowledge gaps lead to inefficiency and poor performance**	**Funding requirements higher due to actuarial assumptions materially different to experience**
Risk ID	16	9	3
Score	20	16	16
Comment	The change from SAP to Unit 4 is still in the planning stage.	This risk manifested itself with the resignation of the Funding Manager in summer 2022.	Uncertainty in markets has led to some volatility and prospective headwinds.
Action	The Change team is coordinating efforts to understand the transition.	Swift backfilling with temporary resource was undertaken. Recruitment for full-time replacements in a number of posts is ongoing.	In addition to using latest market outlook data, the Actuary has also undertaken sensitivity analysis to evaluate resilience of preliminary calculations.
Residual risk	Remains a significant risk pending experience of implementation.	Remains a risk – particularly in relation to knowledge no longer with the organisation. There may be consequential issues with e.g. progress of external audit process.	Actions address a degree of near term risk but uncertainty remains and will be monitored.

5. There were no changes proposed to the risk register this quarter.

Administration Performance Report and Update

6. The Board were provided with an update on performance for the quarters April to June and July to September. The Board were asked for comments on the layout and if the information provided was sufficient detail as depicted in **Annexe2.**

7. Overall, the Board was happy with the layout and information provided. A suggestion was to add an extra column, indicating a green arrow which means the performance had improved. A red arrow to indicate the performance standard had got worse. A horizontal arrow, which means the performance has remained the same.

8. For Member's to measure performance from the last performance report. A request for an exception paragraph to be added to the report which picks up areas of concern.

9. The Chairman suggested separating the backlog cases. Which can't be addressed under business as usual. This is something the officers will look into to see if it can be achieved.

6

10. Officers to work on trend analysis to report back at future Local Board Meetings.

Complaints

11. The Head of Service Delivery confirmed that there have been more complaints reported, but this was generally felt this was because the new team had a better understanding of the procedure and was including expression of dissatisfaction.

Transformation Programme Update

12. The Assistant Director informed the Board of the next steps in the Transformation Programme:-

    a) **Customer Relationship Team** – The Pensions Helpdesk is on track to transition from Business Operations to the Surrey Pension Team and the go live date is set to as the end of November 2022.
    b) **Customer Insights** – to develop a customer insights strategy and implement improvements in line with our Vision and Mission.
    c) **Banking Controls** – to successfully transition Banking Controls from Business Operations to the Surrey Pension Team. The first stage is underway of training the Accounting and Governance Team.
    d) **Culture and Training –** to continue embedding the culture and training required in line with our Vision and Mission.

13. The transformation work is now being absorbed by the pension leadership team under business as usual.

14. It was agreed for the Board to receive continuous improvement/change updates as part of the forward plan.

Progress of 2021/22 Internal Audit Plan

15. An update on Internal Audit activities was provided to the Board. Within this report there are five internal audits, some have been completed. Other Audits officers are working through the findings.

16. The Pension Fund Banking Controls audit is currently in progress and an update will be provided to the Board in the early part of 2023.

17. A Member of the Board asked if this was a review of the targets or a review of how the targets were reached. It was explained that there has been a mismatch between the 'as is' and 'to be' asset allocation as the changes were transitioned.

6

18. Work continues to ensure our general ledger reflects investments made through, Northern Trust the Custodian of our investments on a timely basis.

19. This is the second year that the pension team will have a standalone Audit Plan. A summary was given on internal audit activities for the pension fund for 2022/2023.

Valuation 2022

20. The Board were provided with a summary on progress of the valuation.

21. Preliminary work has been undertaken by the Actuary on possible rates for the larger employers in the fund.

LGPS Recent Developments

22. Members of the Local Pension Board were encouraged to attend the forthcoming Governance Conference 2023 which takes place on 19-20 January 2023.

23. The Chairman asked for the Technical Manager to expand on the implantation of the McCloud remedy in the Teacher Pension scheme. Around 18,000 teachers would be impacted by this although it is unclear at present how many will be in the Surrey Scheme.

CONSULTATION:

24. The Chairmen of the Pension Fund Committee and the Board has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

25. Risk related issues have been discussed and are included within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

26. The performance of administration and governance presents potential financial and value for money implications to the Pension Fund. The monitoring of these implications is addressed within the report.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

27. The Director of Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

28. A Local Pension Board is a requirement under the Public Service Pensions Act 2013. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

29. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

6

30. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

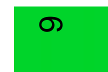
31. The following next steps are planned:

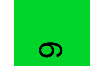
    a) The Committee will receive further reports and continue to work with the Board where necessary and appropriate.

Contact Officer:
Adele Seex, Governance Manager
Neil Mason, Assistant Director, LGPS Senior Officer
Annexes: Risk Register Annexe 1
Service Delivery Performance Report Annexe 2

This page is intentionally left blank

LIKELIHOOD	Minimal 1	Minor 2	Moderate 3	Major 4	Severe 5
5 **Very Likely**					
4 **Likely**				**9** Skills / knowledge gaps lead to inefficiency and poor performance **3** Funding requirements higher due to actuarial assumptions materially different to experience	**16** Implementation of new financial systems leads to delayed processing, data integrity issues or financial loss
3 **Possible**			**10** Data administration failure / fraud leads to data integrity issues **11** Work volume mismatch with capacity leading to backlogs	**5** Investment strategy/implementation affects performance **6** Investment returns impacted by mkt volatility/performance **7** Investment returns impacted by 3rd party performance/default **13** Impact from lack of regulatory/legal compliance **14** Reputational issues due to inaccurate public domain info	
2 **Unlikely**			**2** Employers delay making payments	**1** Employers unable/unwilling to make payments **12** Business interruption/cyber security breach **15** Internal protocols for governance not followed	
1 **Rare**		**8** Insufficient liquidity to meet obligations for rebalancing / payments		**4** Investment performance impacted by insufficient attention to ESG	
IMPACT	**Minimal** 1	**Minor** 2	**Moderate** 3	**Major** 4	**Severe** 5



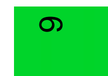


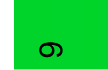
Pension Team Risk Summary

September 2022

Risk ID	Risk Title	Risk Owner	*Risk with current mitigation controls in place* Likelihood (1-5)	Impact (1-5)	Overall Score
16	Implementation of new financial systems leads to delayed processing, data integrity issues or financial loss	A&G	4	5	**20**
9	Skills / knowledge gaps lead to inefficiency and poor performance	SD	4	4	**16**
3	Funding requirements higher due to actuarial assumptions materially different to experience	A&G	4	4	**16**
5	Investment strategy and proposed implementation materially affects investment performance	I&S	3	4	12
6	Investment returns impacted by market volatility/ performance	I&S	3	4	12
7	Investment returns impacted by third party or counter party performance/default	I&S	3	4	12
13	Scheme is financially or reputationally impacted by failure to adhere to (changes in) regulatory and legislative compliance requirements	SD	3	4	12
14	Reputational issues due to inaccurate public domain information (external stakeholder relationships / comms) or inefficient service	A&G	3	4	12
10	Data administration failure / fraud leads to data integrity issues	SD	3	3	9
11	Work volume mismatch with operational capacity leading to backlogs	SD	3	3	9
1	Employers unable/unwilling to make payments	A&G	2	4	8
12	Business interruption or cyber security breach leads to data integrity issues or financial loss	SD	2	4	8
15	Internal protocols for governance not followed	A&G	2	4	8
2	Employers delay making payments	A&G	2	3	6
4	Investment performance materially impacted by insufficient attention to ESG factors	I&S	1	4	4
8	Insufficient liquidity / lack of cash to meet obligations for collateral rebalancing / payments out	I&S	1	2	2

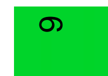
Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
1	Employers unable/unwilling to make payments	A&G - Funding	1A	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond.	Insufficient funding	A&G	2	4	**8**	TREAT/TOLERATE 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers implemented as part of 2022 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.		
2	Employers delay making payments	Service Delivery	2A	Rise in ill health retirements	Impact on employer organisations leading to delay in payments	A&G	2	3	6	TREAT 1) Self-insurance implemented across the fund 2) Reactive reposition investment strategy if necessary		
		Service Delivery	2B	Rise in ill health retirements	Rise in self insurance costs impact employer organisations leading to delay in payments					TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations		
		A&G - Funding	2C	Employer issues with affordability and/or cashflow	Delay in payments					TREAT 1) Pension Team monitors covenant of employers		
3	Funding requirements higher due to actuarial assumptions materially different to experience	A&G - Funding	3A	Price inflation is significantly more or less than anticipated	An increase in CPI inflation by 0.1% would increase the liability valuation by 1.4%	A&G	4	4	**16**	TOLERATE- 1) The discount rate used for the 2022 actuarial valuation is derived from CPI inflation, so the value of Fund liabilities will be calculated with reference to CPI. 2) The assumptions of the Fund actuary are prudent and allow for variations in inflation and interest rate fluctuations.	Latest market outlook to be used in valuation	Dec-22
		A&G - Funding	3B	Members living longer	Adding one year to life expectancy would approximately increase the liability by 3-5%.					TOLERATE- 1) The Fund Actuary uses long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which allows monitoring of mortality rates that are employer and postcode specific.	Latest Club Vita analysis to be used in valuation	Dec-22
		A&G - Funding	3C	Pay increases are significantly more than anticipated for employers within the Fund.	Pension liability increases					TREAT / TOLERATE- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions, any employer specific assumptions above the actuaries long term assumption would lead to further review. 3) Employers to be made aware of generic impact that salary increases can have upon final salary linked elements of LGPS benefits.		
		A&G - Funding	3D	Actuarial work determines the need for increases to employer contributions	Employers need to pay additional funds into the scheme					TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.		
		A&G - Funding	3E	Future member population and/or demographic changes as a result of government policy	Employers need to pay additional funds into the scheme					TREAT / TOLERATE- 1) The Fund actuary uses prudent assumptions on future of workforce. The fund has regular communciations with employer to allow them to flag up major changes in workforce. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.		
		A&G - Funding	3F	HM Treasury and Scheme Advisory Board cost management process has an implied increase in employer contributions.	Employers need to pay additional funds into the scheme					TREAT / TOLERATE - 1) The Fund actuary stabilises employer contribution, which reduces the impact of conditions which could otherwise produce spikes in contribution rates. 2) Communicate with employers and explore the opportunity for the strengthening of their covenant by the provision of additional security to the Fund.		

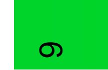




Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
4	Investment performance materially impacted by insufficient attention to ESG factors	Investment	4A	Insufficient attention to environmental, social and governance (ESG) factors	Insufficient attention leads to underperformance and reputational damage.	I&S	1	4	4	TREAT- 1) Review ISS in relation to published best practice (e.g. Stewardship Code). 2) Ensure fund managers are encouraged to engage and to follow the requirements of the BCPP Responsible Investment Policy. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and all assets held with BCPP are monitored by Robeco, this raises awareness of ESG issues and facilitates engagement with fund managers. 4) The Fund has approved a Stewardship Code and a share voting policy which provides specific guidance in the voting of company resolutions. 5) The Fund complies with the BCPP Responsible Investment Policy. 6) Fund reviewing a responsible investment approach, assisted by a dedicated Responsible Investment sub-committee. 7) Fund engaging with lobbying groups.	Consult on Responsible Investment Policy	Sep-22
		Investment	4B	Stranded assets, regulatory fines, failing to adapt to a low carbon economy, in light of IPCC's 2021 report on Climate Change.	Detrimental impact on value of Fund's investments.					TREAT- 1) Ensure fund managers are encouraged to engage and to follow the requirements of the BCPP Responsible Investment Policy, more specifically its Climate Change Engagement Policy. 2) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and all assets held within BCPP are monitored by Robeco, this facilitates engagement with companies who operate in carbon intensive industries. 3) The Fund is also part of the BCPP Climate Change Working Group. 4) Continued review of carbon exposure within current portfolio; all global indexed assets now held in the LGIM Future World Index. 5) Fund reviewing a responsible investment approach, assisted by a dedicated Responsible Investment sub-committee.	Follow up to Task Force on Climate-Related Financial Disclosure (TCFD) report	Sep-22
5	Investment strategy and proposed implementation materially affects investment performance	Investment	5A	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	Investment returns not at expected level for the risk appetite	I&S	3	4	12	TREAT- 1) Active investment strategy and asset allocation monitoring from Committee officers and consultants. 2) 2019 Investment strategy review is current. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.		
		Investment	5B	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within time scales.	Investment returns not at expected level for the risk appetite					TREAT / TOLERATE 1) Officers consult and engage with DHULC, LGPS Advisory Board, BCPP OOG, consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Participation in Cross Pool Collaboration Groups. 4) Recent government guidance continues to endorse pooling.		
		Investment	5C	That the Border to Coast Pensions Partnership disbands or the partnership fails to produce a proposal deemed sufficiently ambitious.	Investment returns not at expected level for the risk appetite					TOLERATE- 1) Partners for the pool were chosen based upon the perceived expertise and like-mindedness of the officers and members involved with the fund to ensure compliance with the pooling requirements. 2) Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 3) Engage with advisors throughout the process.		

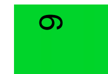
Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
6	Investment returns impacted by market volatility/ performance	Investment	6A	Increased risk to global financial stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, leading to tightened financial conditions, reduced risk appetite and raised credit risks.	Investment returns materially impacted	I&S	3	4	12	TREAT / TOLERATE- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will accompany the 2022 actuarial valuation.		
		Investment	6B	Investment markets fail to perform in line with expectations	Investment returns impacted leading to deterioration in funding levels and increased contribution requirements from employers.					TREAT / TOLERATE- 1) Proportion of asset allocation made up of equities, bonds, property and alternatives, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place automatically at least every three years. 4) FRS102/IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is a measure of CPI over gilts, which is regarded as achievable over the long term when compared with historical data.		
7	Investment returns impacted by third party or counter party performance/default	Investment	7A	Investment Managers fail to achieve performance targets over the longer term	A shortfall of 0.1% on the investment target will result in an annual impact of c£5m	I&S	3	4	12	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be met. 4) Having Border to Coast as an external manager facilitates a smooth transition of assets into the pool and provides an additional layer of investment due diligence. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.		
		Investment	7B	Financial loss of cash investments from fraudulent activity.	Investment returns not at expected level					TREAT / TOLERATE - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers/BCPP have to provide SAS70 or similar (statement of internal controls). 2) The pensions team is currently working to get more direct control of pension fund banking.		
		Investment	7C	Financial failure of a fund manager	Increased costs and service impairment.					TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on the scale and risk management opportunity offered by BCPP.		
		Investment	7D	Counterparty poor performance or default	Loss of investment return					TOLERATE - 1) Lending limits with approved banks and other counterparties are set at prudent levels 2) The pension fund treasury management strategy is based on that of SCC.		
		Investment	7E	Poor performance or financial failure of third party supplier	Service impairment and financial loss.					TOLERATE- 1) Performance of third parties (other than fund managers) monitored. 2) Regular meetings and conversations with Northern Trust take place. 3) Actuarial work and investment work are provided by two different consultancies.		

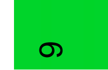




Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
8	Insufficient liquidity / lack of cash to meet obligations for collateral rebalancing / payments out	Investment	8A	Inaccurate cash flow forecasts or drawdown payments	Shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available.	I&S	1	2	2	TOLERATE / TREAT- 1) Borrowing limits with banks and other counterparties are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken quarterly. 3) Comply with the Pension Fund Cash Management Strategy. 4) Annual Cash flow analysis on ongoing basis.		
9	Skills / knowledge gaps lead to inefficiency and poor performance	Service Delivery	9A	Lack of capability of the admin system	Inefficiency and disruption.	SD	4	4	**16**	TREAT/TOLERATE 1) Ensure system efficiency is included in the annual improvement review. 2) Monitor system review and provide extra resource where business case supports it.		
		Service Delivery	9B	Gaps in skills and knowledge due to key person/single point of failure and different skill requirements.	Inefficiency and poor performance.					TREAT 1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. 4) Skills Matrices completed by all staff and standardised Personal Development Plans being introduced.		
		Service Delivery	9C	Lack of productivity	Impaired performance.					TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff 2) Productivity outputs are being measured and reported on a monthly basis. 3) Enhance performance management		
		Service Delivery	9D	Concentration of knowledge in small number of officers and risk of departure of key staff.	Poor perfromance and disruption					TREAT- 1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee and Local Pension Board will be mindful of the proposed CIPFA Knowledge and Skills Framework and appropriate tPR Codes of Conduct when setting objectives and establishing training needs. 4) Skills Matrices completed by all staff and standardised Personal Development Plans being introduced.		

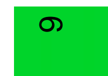
Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
10	Data administration failure / fraud leads to data integrity issues	Service Delivery	10A	Incorrect data due to employer error, user error or historic error.	Service disruption, inefficiency and conservative actuarial assumptions.	SD	3	3	9	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance 2) Pension Fund team, Pension Fund Committee and Local Board members are able to interrogate data to ensure accuracy.		
		Service Delivery	10B	Poor reconciliation process	Incorrect contributions.					TREAT 1) Ensure reconciliation process notes are understood by Pension team 2) Ensure that the Pension team is adequately resourced to manage the reconciliation process 3) Officers to undertake quarterly reconciliation to ensure contributions are paid on time. With a view to moving to monthly reconciliation as employers engage with I-connect.		
		Service Delivery	10C	Unit 4 - Payments made manually outside of monthly payroll has been integrated (SAP & Altair) since Jan 2021 with SCC's banking processes to offer sound financial controls. However, SCC's ERP system is due to change to Unit 4 in 2022-23 and hence the integration between Unit 4 and Altair for monthly and daily payments need to be developed.	Process errors leading to incorrect contributions or benefits					TREAT Integration between Unit 4 and Altair for monthly and daily payments needs to be developed.		
11	Work volume mismatch with operational capacity leading to backlogs	Service Delivery	11A	Processes do not all have a standardised approach	This could lead to inefficiencies	SD	3	3	9	TREAT 1) Review processes to ensure workflows are in line with regulatory requirements 2) Document processes and ensure guidance and checklists are in place 3) Report updates to the Local Pension Board.		
		Service Delivery	11B	Failure to follow up on outstanding issues	Inefficiency and damaged reputation.					TREAT 1) Include monitoring of task follow-up times as part of the revised service standards in the Administration Strategy		
		Service Delivery	11C	Backlog cases in the administration system are not dealth with in a timely manner and require careful management to see a reduction moving forward.	Inefficiency and poor performance.					TREAT 1) Ensure total backlog is recorded accurately (backlog should include cases in Altair). 2) Ensure only completed BAU cases are recorded in Key Performance Indicators. 3) Ensure total number of backlog cases is correctly recorded on the system and presented accurately in the quarterly Administration Performance Report. 4) Continuously work towards improving the accuracy of the reported figures. 5) Backlog to be closely monitored by the management board.		

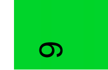




Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
12	Business interruption or cyber security breach leads to data integrity issues or financial loss	Service Delivery	12A	Inability to respond to a significant event	Prolonged service disruption and damage to reputation.	SD	2	4	8	TREAT/TOLERATE 1) Disaster recovery plan to be closely monitored by the management board. 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms should ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance 6) Tolerate consequences of McCloud judgement.	Business Continuity plans and Cyber security approach to be reviewed during 2022/23	Mar-23
		Service Delivery	12B	Failure to implement proper cyber security policies.	Prolonged service disruption and damage to reputation.					TREAT 1) Ensure the Fund's memorandum of understanding and privacy notice is compliant with current legislation. 2) Regularly engage with the host authority IT team to ensure security protocols are up to date. 3) Maintain a central registry of key partners' business continuity plans. 4) Ensure staff are aware of their roles and responsibilities under Surrey's cyber security policy. 5) Ensuring members data is remotely and securely backed up.	Business Continuity plans and Cyber security approach to be reviewed during 2022/23	Mar-23
		Service Delivery	12C	Failure to hold personal data securely.	Personal financial impact and damage to reputation.					TREAT- 1) Data encryption technology is in place, which allow secure the sending of data to external service providers. 2) Phasing out of holding records via paper files. 3) Any hardcopy pension admin records are locked daily in a secure place. 4) SCC IT data security policy adhered to. 5) SCC carries out Security Risk Assessments. 6) Custodian proactively and reactively identifies and responds to cyber threats.		

Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
13	Scheme is financially or reputationally impacted by failure to adhere to (changes in) regulatory and legislative compliance requirements	Service Delivery	13A	Non-compliance with regulation changes relating to the pension scheme or data protection	Fines, penalties and damage to reputation.	SD	3	4	12	TREAT 1) There are generally good internal controls with regard to the management of the fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Ensure processes are completed in a timely manner and that post 2014 refunds are paid within 5 years.		
		Service Delivery	13B	Failure to identify GMP liability	Data or calculation errors leading to incorrect benefits and ongoing costs for the pension fund					TREAT 1) GMP to be closely monitored by the management board. 2) Stage 1 reconciliation reviews have been completed. 3) Mercer have been appointed to carry out an intermim stage 2 review 4) GMP Reconciliation project is being progressed by Mercer (formerly JLT). 5) Separate updates being issued.		
		Service Delivery	13C	Additional resources required to deal with consequences of McCloud judgement	Backlog of processes; data or calculation errors leading to incorrect benefits and ongoing costs for the pension fund					TOLERATE/TREAT 1) The Pension Fund Team can allocate additional funds / resources to mitigate the impact and avoid reputational damage. 2) The proposed remedy will require additional resource and members who have already left will be prioritised.		
		A&G - Funding	13D	Additional resources required to deal with consequences of McCloud judgement; additional costs required to pay higher benefits	Backlog of processes; data or calculation errors leading to incorrect benefits and ongoing costs for the pension fund; possible impact on employers with additional contributions required					TOLERATE / TREAT - 1) Depending on DLUHC's response to the ruling, the actuary may reconsider the funding position, the investment advisers may reposition assets to compensate and the Service Delivery Team may need more resource but ultimately, it is likely to have an impact on employers' contribution rates.		
		A&G - Technical	13E	Failure to comply with changes in LGPS regulations	Incorrect benefits and ongoing costs for the pension fund; possible impact on employers with additional contributions required					TREAT / TOLERATE- 1) Impact on contributions and cashflows will be considered during the 2022 valuation process. 2) Fund will respond to consultations and statutory guidance. 3) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored.		
		A&G - Governance	13F	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	Backlog of processes; data or calculation errors leading to incorrect benefits and ongoing costs for the pension fund					TREAT- 1) Publication of relevant documents on external website. 2) Managers monitored on their compliance with ISS and IMA. 3) Pension fund committee and Local Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review. 5) Pension team reorganisation has provided additional resource in this area.		
		Service Delivery	13G	Additional resources required to deal with consequences of Dashboard implementation	Backlog of processes; data or calculation errors leading to incorrect benefits disclosed; system interfaces inoperative or introducing errors					TOLERATE/TREAT 1) The Pension Fund Team can allocate additional funds / resources to mitigate the impact and avoid processing issues or reputational damage.		





Risk ID	Risk Title	Risk Area	Risk sub-ID	Causes	Effect	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score	Key Existing Management Controls	Planned Enhancements to Controls (Actions)	Target Date
14	Reputational issues due to inaccurate public domain information (external stakeholder relationships / comms) or inefficient service	A&G - Comms	14A	Inaccurate information in public domain	Damage to reputation and loss of confidence.	A&G	3	4	12	TREAT- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that communication is well managed. 3) Update website information as and when required and at least quarterly.		
		Service Delivery	14B	Poor data processing, manipulation and transfer	Incorrect contributions or benefits					TREAT - 1) Improve metrics to better measure performance and monitor the pension administration service.		
15	Internal protocols for governance not followed	A&G - Governance	15A	Failure to take difficult decisions inhibits effective Fund management.	Inefficiency and poor performance.	A&G	2	4	8	TREAT- 1) Ensure activity analysis encourages decision making on objective empirical evidence. 2) Ensure that basis of decision making is grounded in ISS/FSS/Governance statement/Responsible investment policy and that appropriate advice is sought. 3) Ensure the Governance Matrix is made visible to all stakeholders in the pension team enabling clear identification of roles and responsibilities.		
		A&G - Governance	15B	Change in membership of Pension Fund Committee or Local Pension Board leads to dilution of member knowledge and understanding.	Inefficiency and poor performance.					TREAT 1) Ongoing training of Pension Fund Committee and Local Pensions Board members. 2) Pension Fund Committee and Local Pensions Board new member induction programme. 3) Enhance the training for the new and existing Pension Fund Committee and Local Board members. As each bodies members are new to their respective roles.		
		A&G - Governance	15C	Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator.	Damage to reputation and loss of confidence.					TOLERATE - 1) Ensure that an cooperative, effective and transparent dialogue exists between the pension committee and local pension board. 2) Officers to carry out annual measurement against TPR code of conduct.		
		A&G - Governance	15D	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	Damage to reputation and financial loss					TREAT / TOLERATE - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. 2) Use the National LGPS or other established procurement frameworks.		
16	Implementation of new financial systems leads to delayed processing, data integrity issues or financial loss	A&G - Funding	16A	Insuffcient opportunity for detailed testing of new systems leads to need for additional resources and/or remediation. Inadequate system configuration results in workarounds, delayed processing and/or data integrity issues.	Prolonged financial service disruption, lack of visibility of transactions and financial loss.	A&G	4	5	20	TREAT 1) Testing of new system to the extent possible. 2) Ensure resources available at cutover. 3) Ensure data has migrated correctly and remains accurate. 4) Reconciliation of opening position. 5) Monitoring of use/capability of new system. 6) Communication with stakeholders with respect to potential issues.	Monitor timescales for implementation	Ongoing

Surrey Pension Team - Performance Report **PRELIMINARY LAYOUT**

April - June 2022

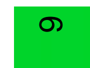
Case Type	Performance standard	Tolerable performance	A % completed within SLA	B Case opening balance	C New cases received	D Cases completed	E Terminated Cases (Calculated)	F Closing balance	G Future Workload
DEATH NOTIFICATION (tPR)	5 working days	90%	98%	-	160	138	4	18	8 days
SURVIVOR'S PENSIONS (tPR)	10 working days	90%	91%	4	121	88	26	11	8 days
DEATH BENEFITS PAYABLE (tPR)	10 working days	90%	92%	10	66	57	5	14	15 days
BALANCE OF PAYMENTS (tPR)	10 working days	90%	94%	11	217	195	9	24	8 days
RETIREMENT (COMPLETE) (tPR)	15 working days	85%	90%	231	500	398	39	294	44 days
ILL HEALTH RETIREMENT (COMPLETE) (tPR)	15 working days	90%	100%	3	8	9	1	1	7 days
REFUNDS (tPR)	20 working days	80%	95%	122	867	732	117	140	12 days
RETIREMENT (INITIAL NOTIFICATION)	15 working days	80%	94%	127	833	594	119	247	25 days
ILL HEALTH RETIREMENT (INITIAL)	15 working days	90%	100%	-	14	8	(1)	7	53 days
DEFERRED STATUS	2 months	80%	89%	3,882	1,195	1,165	366	3,546	9 months
EMPLOYER ESTIMATE	10 working days	80%	89%	5	98	55	7	41	45 days
LGPS TRANSFER IN (ESTIMATE)	20 working days	80%	83%	647	509	563	70	523	56 days
NON-LGPS TRANSFER IN (ESTIMATE)	20 working days	80%	71%	178	32	37	1	172	280 days
LGPS TRANSFER OUT (ESTIMATE)	20 working days	80%	87%	97	174	156	33	82	32 days
NON-LGPS TRANSFER OUT (ESTIMATE)	20 working days	80%	91%	88	82	65	17	88	82 days
LGPS TRANSFER IN (ACTUAL)	20 working days	80%	75%	444	492	479	45	412	52 days
NON-LGPS TRANSFER IN (ACTUAL)	20 working days	80%	87%	36	36	32	3	37	70 days
LGPS TRANSFER OUT (ACTUAL)	20 working days	80%	88%	51	125	122	1	53	26 days
NON-LGPS TRANSFER OUT (ACTUAL)	20 working days	80%	86%	12	21	15	-	18	72 days
NEW STARTER	30 working days	80%				1828			
TOTAL OPEN CASES			89%	5,948	5,550	6,736	862	5,728	

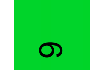
Summary

In line with the Surrey Pension Team "transformation program" staff moved into the new team structure from 1 May.
For cases received during this reporting period, performance was met in all but one work area (transfers in).

Transfers are the responsibility of the Future Benefits Team. This is a new team with new team members. As such some training needs have been identified and this is being addressed.

In period overall performance averages were: SLA achieved over all work areas 89% and 94% for tPR cases.





Surrey Pension Team - Performance Report
July - September 2022

PRELIMINARY LAYOUT

Case Type	Performance standard	Tolerable performance	A % completed within SLA	B Case opening balance	C New cases received	D Cases completed	E Terminated Cases (Calculated)	F Closing balance	G Future Workload
DEATH NOTIFICATION (tPR)	5 working days	90%	82%	18	207	202	3	20	6 days
SURVIVOR'S PENSIONS (tPR)	10 working days	90%	90%	11	82	64	10	19	18 days
DEATH BENEFITS PAYABLE (tPR)	10 working days	90%	86%	14	103	71	27	19	16 days
BALANCE OF PAYMENTS (tPR)	10 working days	90%	93%	24	197	190	2	29	9 days
RETIREMENT (COMPLETE) (tPR)	15 working days	85%	76%	294	487	462	41	278	36 days
ILL HEALTH RETIREMENT (COMPLETE) (tPR)	15 working days	90%	70%	1	11	9	1	2	13 days
REFUNDS (tPR)	20 working days	80%	97%	140	1,327	885	126	456	31 days
RETIREMENT (INITIAL NOTIFICATION)	15 working days	80%	87%	247	679	622	93	211	20 days
ILL HEALTH RETIREMENT (INITIAL)	15 working days	90%	86%	7	28	17	7	11	39 days
DEFERRED STATUS	2 months	80%	89%	3,546	1,510	1,036	200	3,820	11 months
EMPLOYER ESTIMATE	10 working days	80%	78%	41	45	63	10	13	12 days
LGPS TRANSFER IN (ESTIMATE)	20 working days	80%	92%	523	664	496	120	571	70 days
NON-LGPS TRANSFER IN (ESTIMATE)	20 working days	80%	73%	172	52	41	23	160	234 days
LGPS TRANSFER OUT (ESTIMATE)	20 working days	80%	94%	82	221	191	50	62	20 days
NON-LGPS TRANSFER OUT (ESTIMATE)	20 working days	80%	86%	88	78	64	20	82	77 days
LGPS TRANSFER IN (ACTUAL)	20 working days	80%	80%	412	793	621	90	494	48 days
NON-LGPS TRANSFER IN (ACTUAL)	20 working days	80%	84%	37	50	39	5	43	66 days
LGPS TRANSFER OUT (ACTUAL)	20 working days	80%	90%	53	136	116	9	64	33 days
NON-LGPS TRANSFER OUT (ACTUAL)	20 working days	80%	93%	18	23	13	9	19	88 days
NEW STARTER	30 working days	80%				1514			
TOTAL OPEN CASES			86%	5,728	6,693	6,716	846	6,373	

Summary
Q2 performance dipped overall with SLA averages of 86% for all work areas and 85% for tPR cases.
Performance dipped due to a combination of reasons: staff resources as a result of resignations and annual leave commitments.
Immediate Benefits Team operated without two experienced Benefit Officers which meant performance for tPR cases was below SLA in 4 KPIs.
Transfer in cases increased within period following commencing work in the banking area of identifying and allocating payments received.
The work to provide the Annual Allowance statements was completed in the Service Delivery team this year for the first time so this took some resource away from normal BAU.

Annexe 2

Performance Table Key

% Completed within SLA	**A**	Percentage of cases completed in period within SLA.
Case Opening Balance	**B**	Total cases open at the start of the period (this may vary from the previous month closing balance due to terminated cases).
New cases received	**C**	Total cases received in reporting period (including terminated). Not all cases are due for completion within period.
Cases completed	**D**	The total cases completed during period (excluding terminated cases)
Terminated Cases	E	Cases terminated in period due to duplication or set up incorrectly
Closing Balance	F	Cases remaining from period less terminated cases (F = B+C-D-E)
Future Workload	G	Total number of estimated days to process closing balance cases (F/D*60 working days)
Assumed tolerance of performance SLA		Green = tolerable performance measure met Amber = within 10% of tolerable performance measure Red = more than 10% of tolerable performance measure
Future workload tolerance		Green = less than 1 times the performance standard Amber = within 1 - 2 times more than the performance standard Red = more than 2 times the performance standard

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE**

SUMMARY OF ISSUE:

This report is a summary of manager issues for the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1) Notes the main findings of the report in relation to the Fund's valuation and funding level, performance returns and asset allocation.

REASON FOR RECOMMENDATIONS:

To assess and acknowledge performance of the Fund's investment managers against the Fund's target returns, and whether it is meeting its Strategic Investment objective in line with the Business Plan.

DETAILS:

Funding Level

1. The funding level is derived as the ratio of the value of the Fund's assets to the value of its liabilities. The Fund's liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. The Fund's assets are used to pay member benefits accrued to date.

2. Since the 2019 valuation we have reported the funding position each quarter using a static discount rate of 4.2%.

3. At the 2022 valuation, this discount rate was revised to 4.4%, which was higher than that set at the 2019 valuation due to an increase in investment return expectations. The 2022 valuation discount rate of 4.4% was set based on a 70% level of prudence ie based on market conditions as at 31 March 2022, there was a 70% likelihood that the Fund's assets would generate average returns of at least 4.4% over the following 20 years.

4. Return expectations as at 30 September 2022 were significantly higher than they were as at 31 March 2022. This is due, in part, to higher interest rates which are expected to increase returns on all other asset classes. The current discount rate of 6.3% is based on the same level of prudence as applied as at

31 March 2022 ie a 70% likelihood of achieving at least this level of return over the next 20 years.

5. For the purpose of providing the quarterly funding updates following the 2022 valuation, it is appropriate (and the Fund Actuary's recommendation) that the 70% level of prudence remains fixed in the determination of the discount rate. This 'dynamic' discount rate each quarter-end would therefore reflect the change in investment return expectations since the 2022 valuation date.

7

6. Assessing the liabilities using the 'dynamic' discount rate also ensures that the factors leading to a change in asset values are being reflected in liability values. There is not a direct relationship (ie assets and liabilities do not react in the exact same way to changes in market conditions) but measuring the liabilities using the 'dynamic' discount rate means that the assets and liabilities are being measured on a consistent market basis over time.

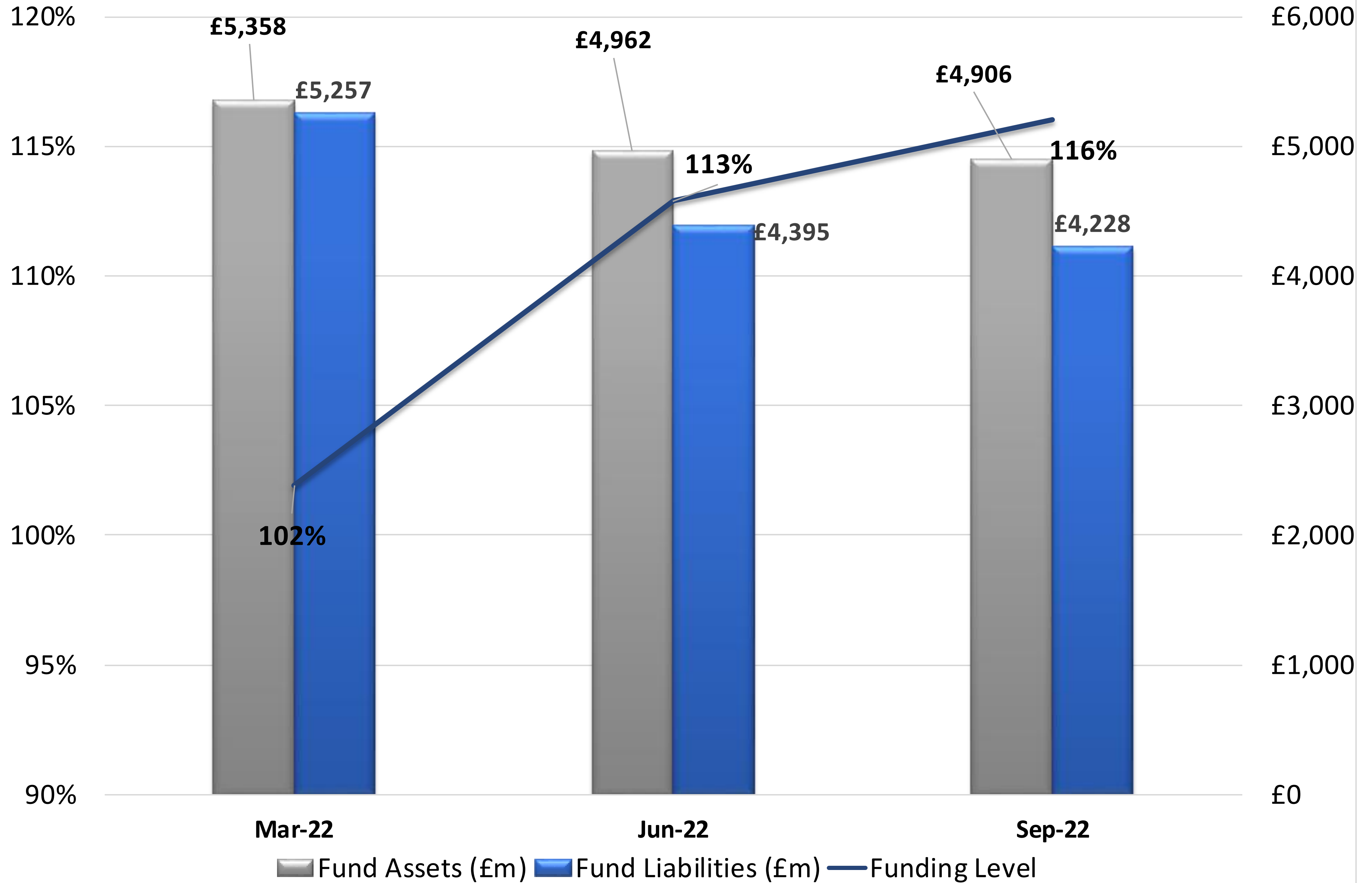
7. Now is the right time to make this change, given the significant shift in market conditions (interest rates and short-term inflation) we have seen since the 2022 valuation date (31 March 2022). The world going forward may look quite different to the one where reporting on a fixed discount rate of 4.4% was appropriate, and there is a risk that continuing to report on a fixed discount rate may give a misleading picture of the emerging funding position.

8. Results and assumptions

	31 March 2022	30 June 2022	30 September 2022
Assets (£m)	5,358	4,962	4,906
Past service liabilities (£m)	5,257	4,395	4,228
Surplus/(Deficit) (£m)	**101**	**567**	**678**
Funding level	102%	113%	116%
Discount Rate	4.4%	5.3%	6.3%
Salary Increases	3.7%	3.7%	3.6%
Pension Increases	2.7%	2.7%	2.6%
Likelihood of success	70%	70%	70%

9 For information, if a static discount rate of 4.4% were to apply (as applied at the 2022 valuation), our assessment is that the Fund's assets have a 87% likelihood of returning this level of return over the next 20 years. The reported funding level would therefore not be consistent with the level of prudence set at the 2022 valuation.

10 The graph below shows that funding level has reached 116% (102% as at 31 March 2022), updated for market conditions at 30 September 2022. The market value of assets is approximately £4.9bn and the value placed on the liabilities is £4,2bn.



Surrey Pension Fund Quarterly Summary
120%
115%
110%
105%
100%
95%
90%
£6,000
£5,000
£4,000
£3,000
£2,000
£1,000
£0
£5,358
£5,257
£4,962
£4,395
£4,906
£4,228
102%
113%
116%
Mar-22
Jun-22
Sep-22
Fund Assets (£m)
Fund Liabilities (£m)
Funding Level

11. Attitudes towards the evolving economic situation, and the resultant policy response from governments and central banks, fluctuated during the period. July saw optimism that inflation was peaking but August gave way to acceptance of more interest rate tightening ahead. This was compounded in September when the Federal Reserve surprised investors with higher interest rate projections. On the home front, the most important development during the quarter was the announcement of the Government's 'mini' budget. In response to the expected increase in Government borrowing, due to increased spending and unfunded tax cuts, sterling fell precipitously and gilt yields rocketed.

7

Within this environment, global equities fell again in the quarter to 30 September 2022, as market participants reflected on high inflation, rising interest rates and a weakening economic outlook. Both developed and emerging market lost ground. European equity markets underperformed as the European Central Bank raised interest rates by 50bp in July and then 75bp in September. High gas prices are weighing heavily on industry and manufacturing on the continent, making a recession likely. Data points were also generally negative in the UK, although the unemployment rate fell to 3.6% in July, its lowest level since 1974. Japan outperformed as weakness in the yen is seen as supportive to exports and the Government announced plans to lift most travel restrictions relating to Covid. Emerging market equities underperformed, with China the key detractor.

Yields on global government bonds rose substantially over the period as central banks guided towards higher interest rates in a bid to combat inflation. As previously discussed, expectations of interest rate levels varied over the quarter, but the period ended with concerns over future increases after higher than predicted inflation announcements. European bond yields rose, with the 10-year German bund yield increasing from 1.4% to 2.1% and spreads widened on the Italian 10-year government bond. Government stimulus packages to aid consumers and businesses should support the economy to some extent, although increased borrowing, combined with economic contraction and rising inflation, could result in growing pressure on financial markets. In response to energy subsidies and the 'mini' budget, 10-year gilt yields rose dramatically from 2.2% to 4.1%, touching 4.5% in the last week of September. Yields fell back from this peak as the Bank of England intervened to contain further damage to the financial system by buying gilts. Yields on Japanese government bonds were relatively flat, as the Bank of Japan remains committed to maintaining its 10-year bond yield below 0.25% by purchasing an unlimited quantity of the bonds.

Credit spreads widened as investors feared negative impacts on growth and company finances against the backdrop of an already slowing global economy. The eurozone manufacturing PMI, at 48.4 in September, pointed to the biggest contraction in factory activity since June 2020. The consumer confidence indicator fell to its lowest level since the series began in 1985. Sterling credit underperformed due to local government policies on top of the general economic and market background.

The US dollar continued its rise against sterling, the euro and the yen over the quarter, as rising US interest rates applied further pressure to global economies and currencies amid weakening economic data. The euro ended the quarter below parity with the dollar.

12. Overall, the Fund returned -1.55% in Q2 2022/23 (Jul-Sep 2022), in comparison with the Fund's benchmark of -0.36%. The fall in absolute terms was the result of the factors discussed above, particularly highlighted by the performance of UK Gilts.

    The relative underperformance was driven by three BCPP funds, namely Global Equity Alpha, Multi-Asset Credit and Listed Alternatives. BCPP Global Equity Alpha continued its disappointing run of performance this year, with half of the relative underperformance coming from currency exposure and half from the exposure to value managers. Relative to each individual market benchmark, the underlying funds within BCPP MAC underperformed by 0.4%, with 5 of the 6 managers underperforming. However, against the overall absolute return benchmark of SONIA +3.5%p.a., the Fund underperformed significantly more as yields across the market rose, as discussed above. BCPP Listed Alternatives underperformed its benchmark by 5.8% as some long duration/infrastructure positions had high correlation with the falling bond markets.

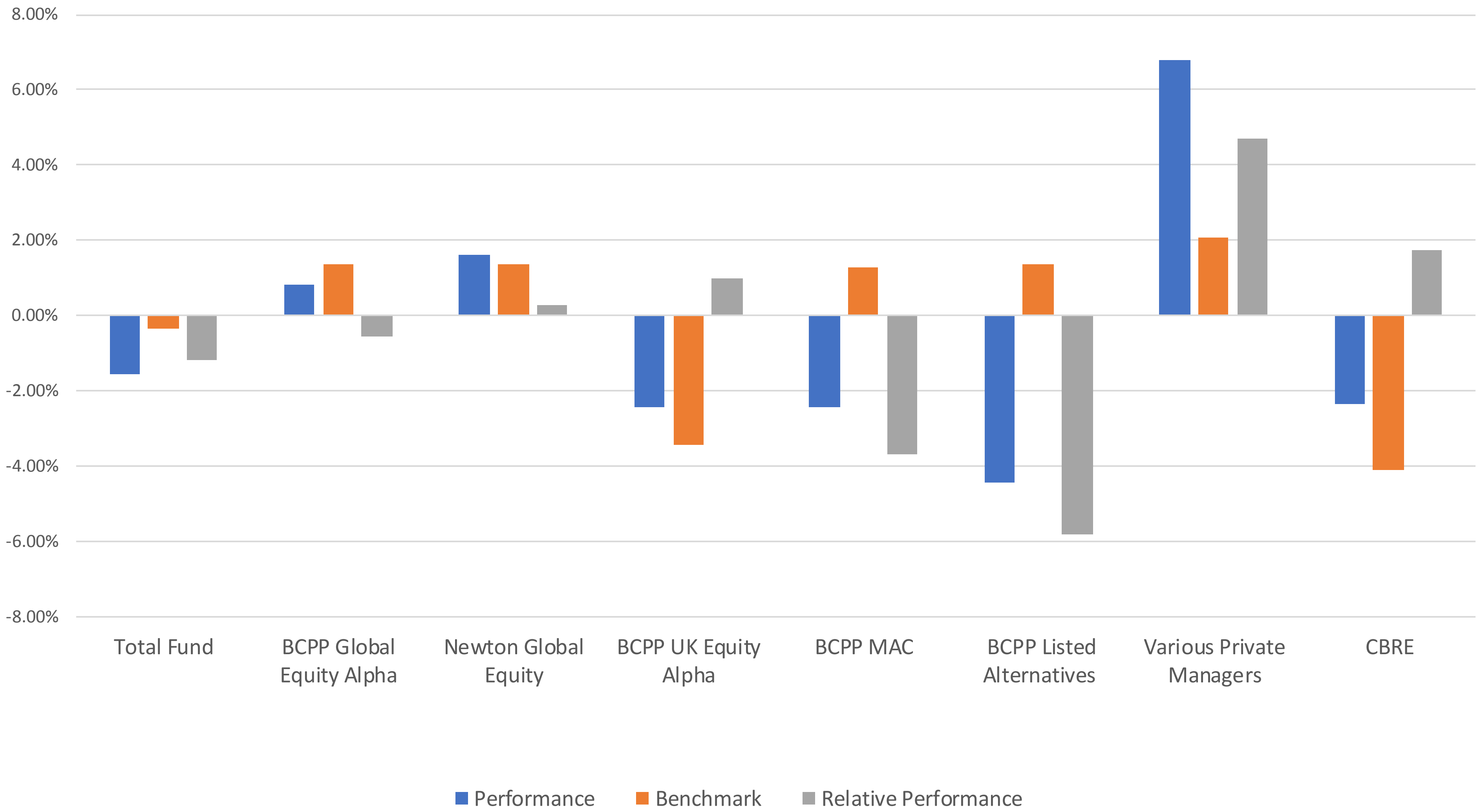
    Offsets to this performance came from the Real Estate exposure, through CBRE, as well as the Private Markets positions. Valuations in both these asset classes tend to be less volatile and, compared to listed equities, tend to adjust more slowly to changing economic conditions. This can benefit relative performance on a short-term basis.

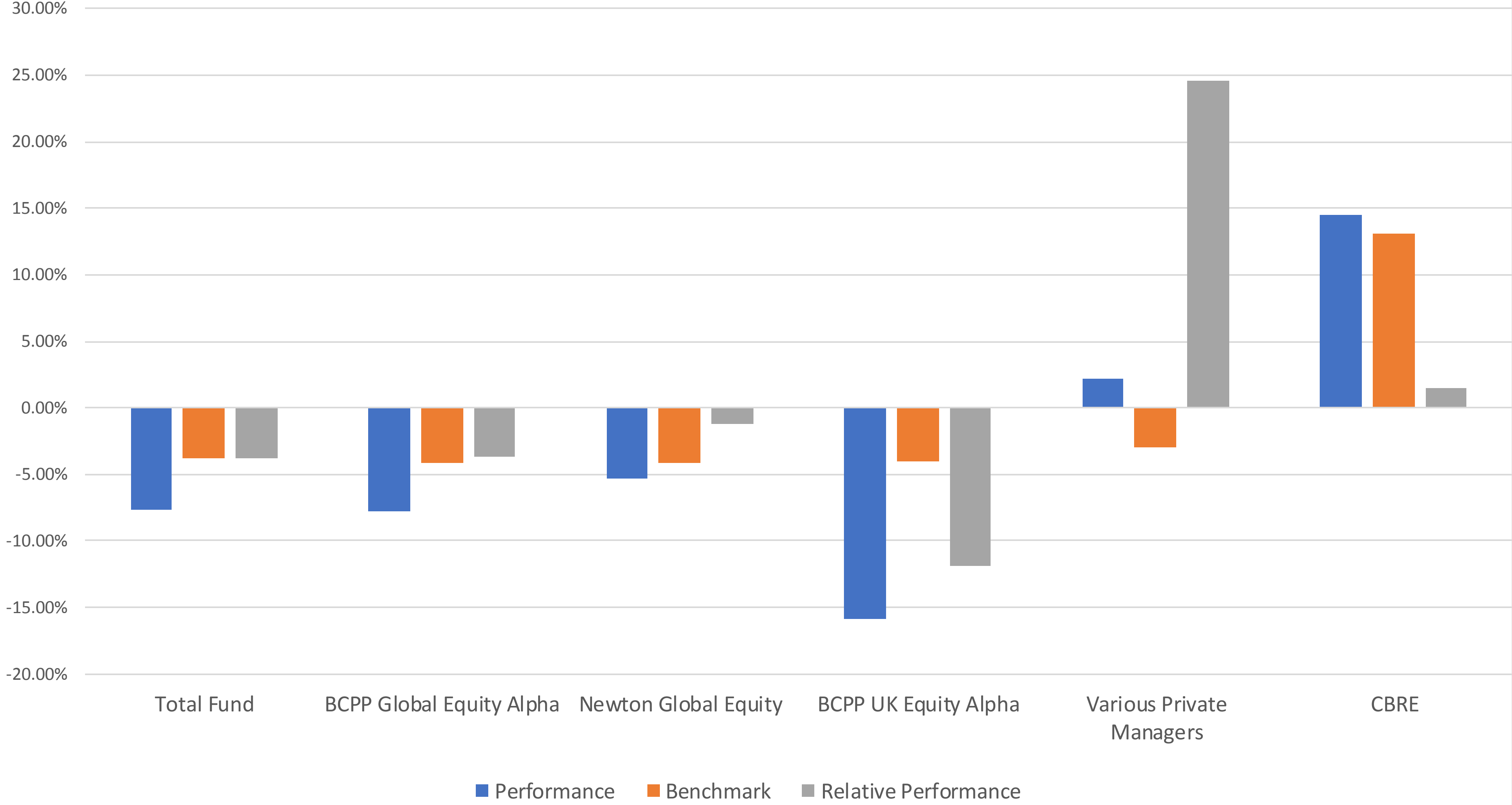
Fund Performance - Summary of Quarterly Results

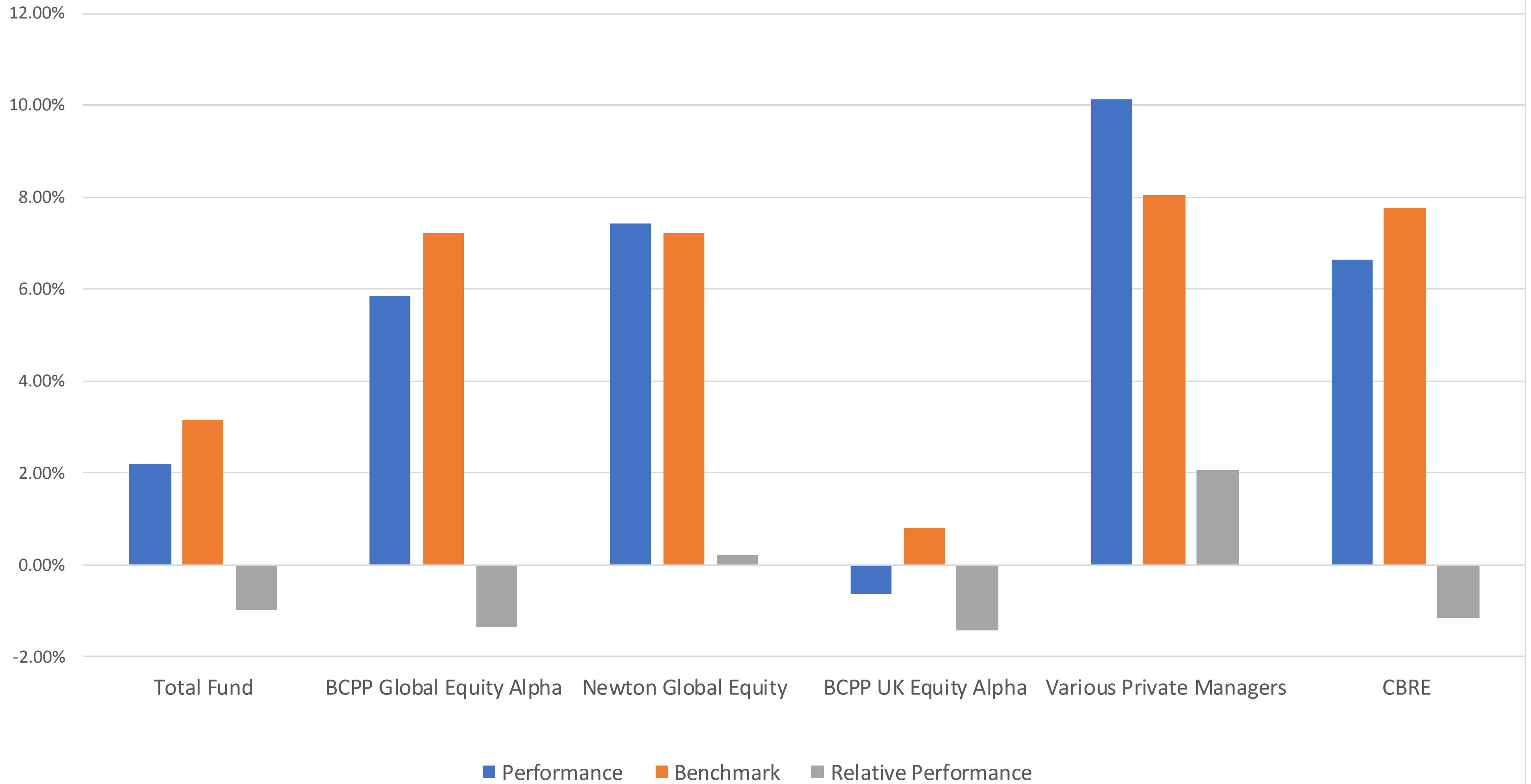
The table below shows manager performance for Q2 2022/23 (July – September 2022), net of investment manager fees, against manager specific benchmarks using Northern Trust data.

As at 30 Sep 2022		3M			1Y			3Y		
Asset Class	£m	Performance	Benchmark	Relative Performance	Performance	Benchmark	Relative Performance	Performance	Benchmark	Relative Performance
Total Fund	**4,908.47**	-1.55%	-0.36%	-1.19%	-7.68%	-3.84%	-3.84%	2.19%	3.17%	-0.98%
Active Global Equity	**1,116.3**									
BCPP Global Equity Alpha	659.1	0.82%	1.37%	-0.55%	-7.82%	-4.17%	-3.65%	5.85%	7.22%	-1.37%
Newton Global Equity	457.2	1.63%	1.37%	0.26%	-5.32%	-4.17%	-1.15%	7.43%	7.22%	0.21%
Active Regional Equity	**452.3**									
BCPP UK Equity Alpha	452.3	-2.45%	-3.45%	1.00%	-15.88%	-4.00%	-11.88%	-0.62%	0.80%	-1.42%
Passive Global Equity	**866.7**									
LGIM - Future World Global	866.7	1.17%	1.22%	-0.05%						
Passive Regional Equity	**381.7**									
LGIM - Europe Ex-UK	42.5	-2.39%	-2.43%	0.04%	-13.12%	-13.61%	0.48%			
LGIM Emerging Markets	284.4	-2.34%	-2.39%	0.06%	-8.76%	-8.84%	0.08%			
LGIM - Japan	14.3	0.94%	0.77%	0.17%	-13.65%	-13.98%	0.34%			
LGIM - Asia Pacific ex-Japan	40.6	-2.98%	-2.97%	0.00%	-9.17%	-9.16%	-0.01%			
Fixed Income	**649.1**									
BCPP MAC	524.1	-2.42%	1.26%	-3.68%						
LGIM Gilts *	125.0	-12.44%	-12.44%	0.00%	-23.93%	-23.93%	0.00%	-12.28%	-12.28%	0.00%
Private Markets Proxy	**348.7**									
BCPP Listed Alternatives	348.7	-4.44%	1.37%	-5.81%						
Private Markets	**712.2**									
Various Private Managers	712.2	6.77%	2.06%	4.71%	21.67%	-2.93%	24.60%	10.13%	8.06%	2.07%
Real Estate	**350.5**									
CBRE	350.5	-2.36%	-4.10%	1.75%	14.50%	13.05%	1.45%	6.63%	7.76%	-1.14%
L&G Currency Overlay	- 47.0									
Total Cash & Equivalents	77.8									

* Performance figures represent total Bespoke Fund (3M Gilt Return -18.1%, Liquidity Return 0.41%)
** Includes £8.3m of money market funds


3 Months to 30 Sep 2022 Active Manager Performance Relative to Benchmark
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
-4.00%
-6.00%
-8.00%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
BCPP MAC
BCPP Listed Alternatives
Various Private Managers
CBRE
Performance
Benchmark
Relative Performance


1 Year to 30 Sep 2022 Active Manager Performance Relative to Benchmark
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
-20.00%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
Various Private Managers
CBRE
Performance
Benchmark
Relative Performance


3 Years to 30 Sep 2022 Performance Relative to Benchmark
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
Various Private Managers
CBRE
Performance
Benchmark
Relative Performance

Recent Transactions

13. In October 2021 the Fund purchased units in the BCPP Multi-Asset Credit Fund to a value of £613.5m. This was funded from the disposal of units in the Western Multi-Asset Credit Fund and units in the Templeton Global Total Return Fund.

14. In October 2021 the Fund purchased units in the LGIM Future World Global Equity Index Fund to a value of £996m. This was funded from the disposal of units in the LGIM RAFI Multi-Factor Developed Index Fund and units in the LGIM MSCI World Low Carbon Target Index Fund.

15. In February 2022 the Fund purchased units in the BCPP Listed Alternatives Fund to a value of £386.5m. This was funded from the disposal of units in the Baillie Gifford Diversified Growth Fund, units in the Aviva Investors Multi-Strategy Target Return Fund, and units in the Ruffer Absolute Return Fund.

16. During the second half of 2022 the Fund has used BCPP Listed Alternatives, BCPP UK Equity Alpha and LGIM Liquidity Fund as a source of funds for private market capital calls.

Stock Lending

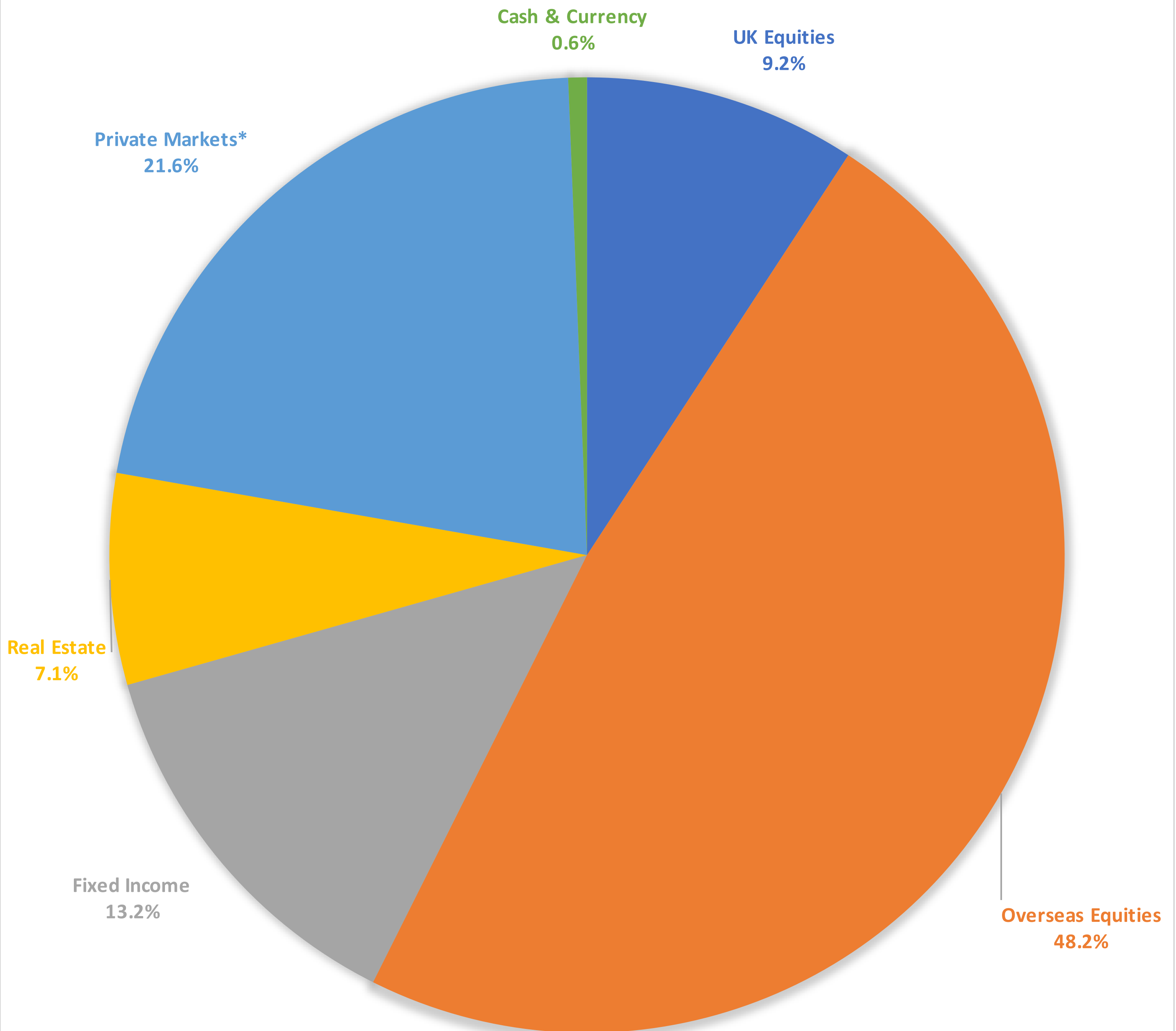
17. In the quarter to 30 September 2022, stock lending earned a net income for the Fund of £2,939 compared with £8,784 for the quarter ended 30 June 2022.

Asset allocation

18. The table and the graph below show the target and actual asset allocations for the quarter ending 30 September 2022. These allocations were agreed by the Pension Fund Committee in the December 2021 meeting.

Asset class	Total Fund (£M)	Actual (%)	Target (%)	Advisory ranges %	Role(s) within the strategy
Listed Equities		**57.4%**	**54.8**	**51.8 – 57.8**	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	452.3	9.2%	12		
Global Market Cap	1,116.3	22.7%	13		
Global Regional	97.3	2.0%	10		
Emerging Markets	284.4	5.8%	3.8		
Global Sustainable	866.7	17.7%	16		
Alternatives		**28.8%**	**27.6**	**22.6-32.6**	Generate returns in excess of inflation, through exposure to illiquid assets that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Private Markets	712.2	14.5%	17	7.0-25.0	
Listed Alternatives	348.7	7.1%	3	0.0-6.0	
Real Estate	350.5	7.1%	7.6	4.6–10.6	
Multi Asset Credit		**10.7%**	**12.1**	**9.1-15.1**	Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
Multi Asset Credit	524.1	10.7%	12.1		
Fixed Interest Gilts				**2.5-8.5**	Low risk income stream
Fixed Interest Gilts	125.0	2.5%	5.5		
Cash & Currency Overlay	30.8	**0.6%**			
Total	**4,908.5**		**100**		

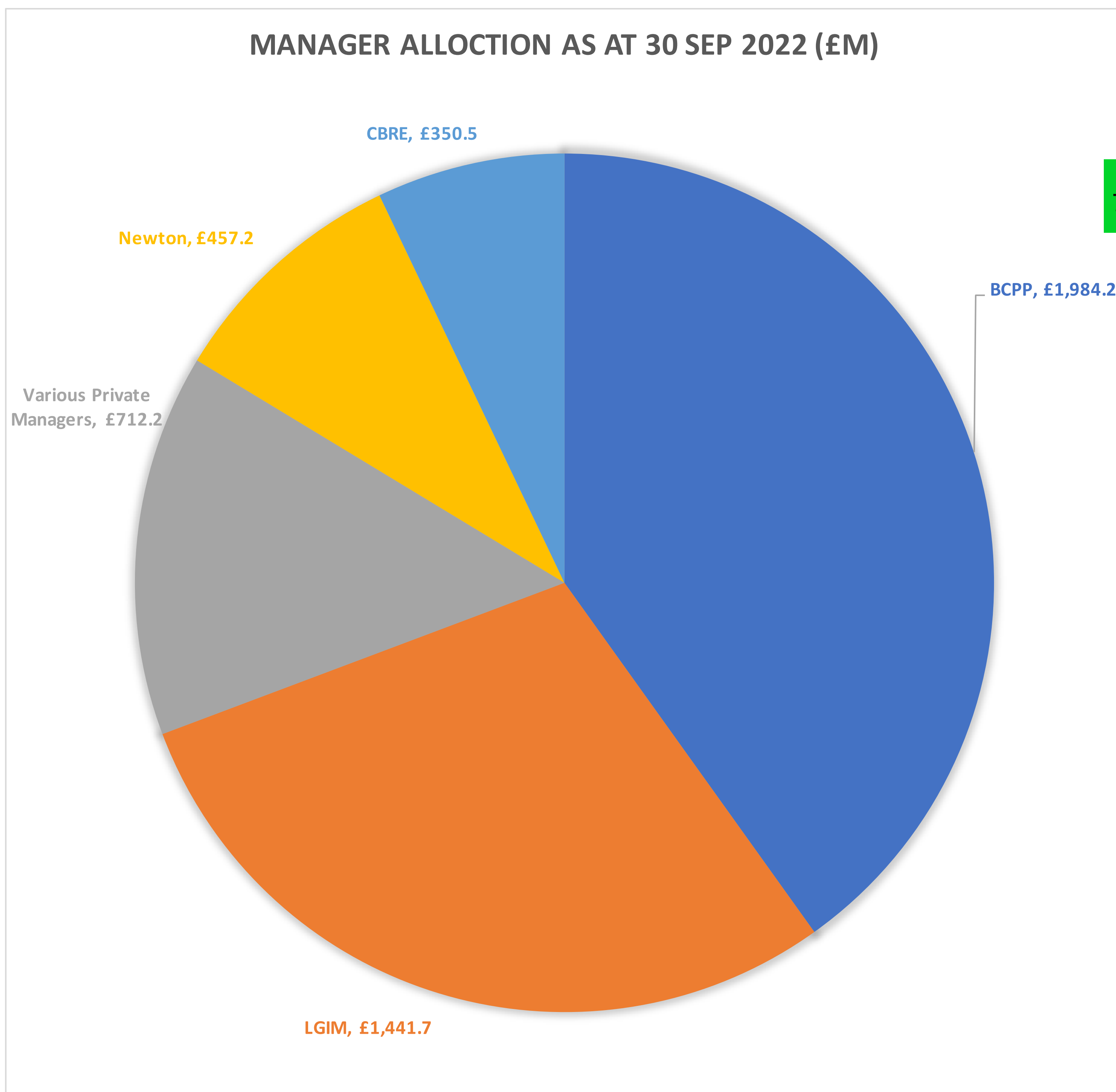
7



*Includes Listed Alternatives

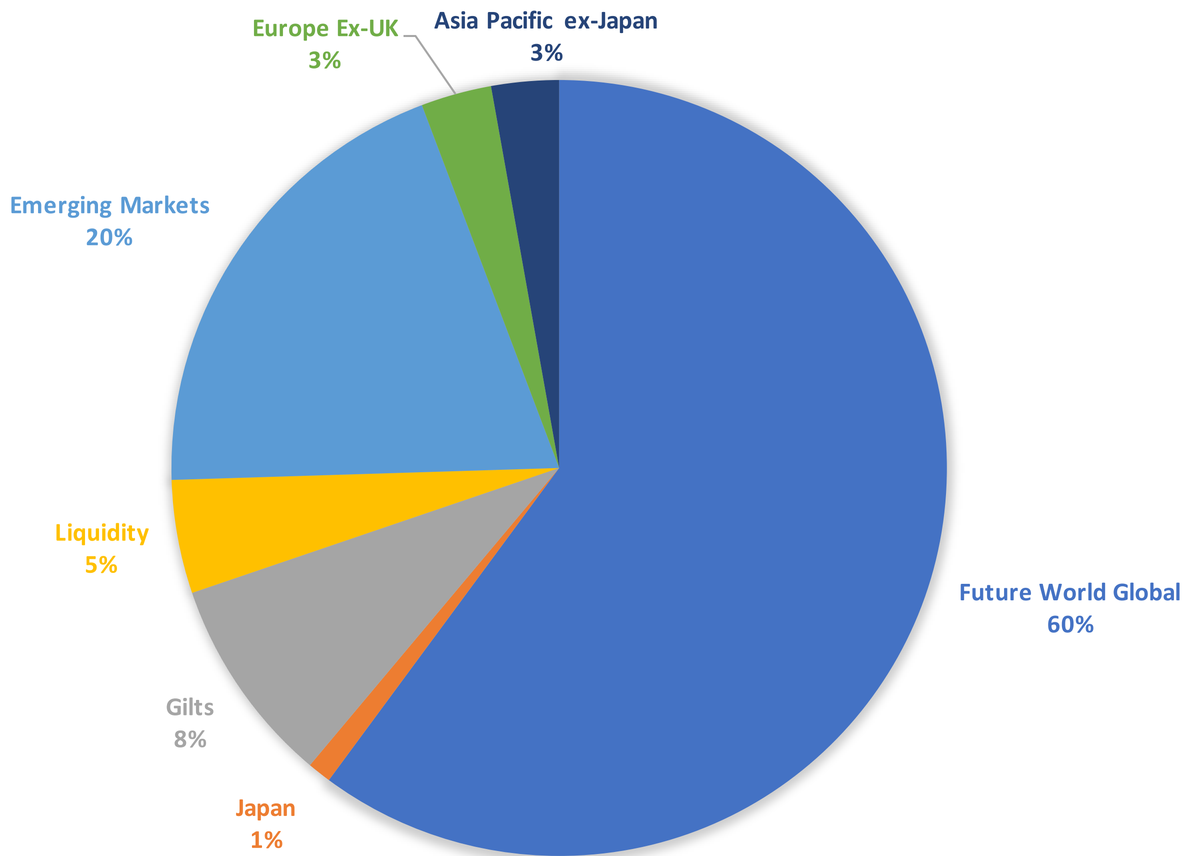
Manager Allocation

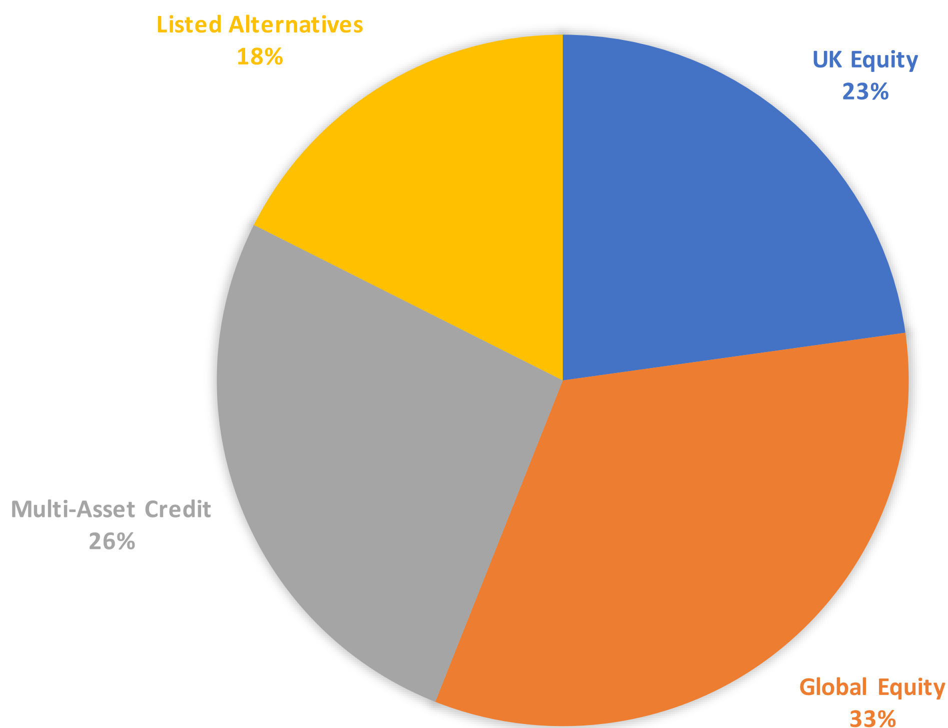
The graph below shows the manager allocation for the quarter ending 30 September 2022.



7

7





Cashflow

19. Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.

20. Contributions are derived from employers and employees. Pension benefits are derived from pensions and lump sum benefits paid to retired members and benefits paid to employees on leaving the Fund.

21. Any positive cash-flow is invested in accordance with the Fund's cash management plan.

22. We are reviewing cashflow information and in due course will review the prospective cashflow requirements taking account of likely pension increases and the new schedule of employer contributions following the actuarial valuation.

7

£m **Period**	**Total contributions received**	**Total pension benefits paid**	**Net cash-flow**
Quarter One 2022/23 (1 Apr 2022 – 30 Jun 2022)	54.8	51.2*	3.6
Quarter Two 2022/23 (1 Jul 2022 – 30 Sep 2022)	56.3	48.6	7.7

*This figure is inflated due to an increase in Transfers Out during the quarter

23. An indication of the current membership trends is shown by movements in membership over quarters four and one. Member data listed below.

Period	**Active members**	**Deferred members**	**Pension members**	**Total members**
Quarter One 2022/23 (1 Apr 2022 – 30 Jun 2022)	35,394	43,085	29,917	108,396
Quarter Two 2022/23 (1 Jul 2022 – 30 Sep 2022)	35,010	43,728	30,264	109,002

Fund Manager Benchmarks

Fund	Portfolio	Benchmark Index	Performance Target relative to Benchmark
Surrey Pension Fund	Total Portfolio	Weighted across fund	+1.0%

Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
BCPP	MAC	SONIA + 3.5%	
BCPP	Listed Alternatives	MSCI AC World Index	
Newton	Global Equities	MSCI AC World Index	+2.0%
Various	Private Equity	MSCI World Index	+5.0%
CBRE	Real Estate	MSCI/AREF UK QPFI All Balanced Property Fund Index (for UK Assets) Global Alpha Fund Absolute Return 9-11%	+0.5%
LGIM	Europe ex-UK Equities Future World Global Equity Index Japan Equity Asia Pacific ex-Japan Development Equity World Emerging Markets Equity LGIM Bespoke & Cash	FTSE Developed Europe ex-UK Net Solactive L&G ESG Global Markets Net FTSE Japan Net FTSE Developed Asia Pacific ex-Japan Net FTSE Emerging Net Fund return	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

CONSULTATION:

24. The Chair of the Pension Fund Committee has been consulted on this report

RISK MANAGEMENT AND IMPLICATIONS:

25. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

26. Financial and value for money implications are discussed within the report.

7

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

27. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

28. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

29. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

30. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

31. The following next steps are planned:

- Analyse asset allocation relative to any agreed changes resulting from Investment Strategy Review.
- Continue to monitor performance and enhance risk adjusted returns

---

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:
Annexe 1 - Manager Fee Rates (Part 2)

Sources/background papers:

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCE & COMMERCIAL**

SUBJECT: **BORDER TO COAST PENSIONS PARTNERSHIP UPDATE**

8

SUMMARY OF ISSUE:

Border to Coast Pensions Partnership (BCPP) is now an established fully regulated asset management company when the authorised contractual scheme (ACS) went "live" on 26 July 2018. The Surrey Pension Fund started transitioning assets in quarter four of 2018 and continues this through 2022. This paper provides the Pension Fund Committee (Committee) with an update of current activity being undertaken by the Border to Coast Pensions Partnership (BCPP).

RECOMMENDATIONS:

It is recommended that the Committee:

1. Supports the revised Border to Coast Responsible Investment (RI) Policy 2023, Climate Policy 2023 and Corporate Governance & Voting Guidelines 2023, subject to the continuing work between the Fund and Border to Coast to align our approaches consistent with the Fund's standalone RI Policy, Voting Policy and commensurate with feedback from the Fund, as set out in paragraph 18.
2. Approves the proposed changes to the Stakeholder agreement, Articles of Association and Inter Authority Agreement outlined in this report and recommends approval by full Council.
3. Recommends to full Council that all future decisions in respect of BCPP matters are delegated in the following way:
    a) Inter authority agreement matters (joint committee) – to the Pension Fund Committee
    b) Articles of Association and shareholder agreement matters – to the shareholder representative (the Section 151 officer or their delegate, in consultation with the Chair of the Pension Fund Committee).
4. Notes the background and progress of BCPP activity, including details of the following:
    a) Schedule of activity since the last Committee meeting of 23 September 2022 until the end of the calendar year.
    b) BCPP Joint Committee (JC) meeting of 20 June 2022, 29 September 3033 and 30 November 2022.

REASON FOR RECOMMENDATIONS:

To keep the Pension Fund Committee apprised of the progress made by the Officer Operations Group (OOG), Joint Committee and BCPP Shareholder Board in the drive to maintain a fully functioning asset pool, which will manage the significant majority of the Surrey Fund assets. This is consistent with the Fund's strategic investment and governance objectives.

DETAILS:

8

Revised BCPP Responsible Investment (RI) Policy 2023, Climate Change Policy 2023 and Corporate Governance and Voting Guidelines 2023.

1. The BCPP Responsible Investment policy sets out the BCPP approach to RI and stewardship, the Corporate Governance & Voting Guidelines set out their approach and principles to voting, and the Climate Change Policy sets out their approach to managing climate risk and opportunities.

2. The policies are reviewed annually or when material changes need to be made. As the Climate Change Policy was developed and published last year, the governance process is now being aligned with that of the other RI policies. The annual review process commenced in July to ensure any revisions are in place ahead of the 2023 proxy voting season.

3. Current policies were evaluated by Robeco, BCPP's voting and engagement provider, considering the global context and shift in best practice. This included consideration of the recently revised International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.

4. The policies of best-in-class asset managers, and asset owners considered to be RI leaders were also consulted with by BCPP, to determine developments across the industry. They have also taken into account the Investment Association Shareholder Priorities for 2022.

5. Regular RI workshops have been held for the Officers Operation Group (OOG) and the Joint Committee where the approach to Net Zero by 2050 was discussed including selection of metrics and associated targets.

6. The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2023 proxy voting season. After considering feedback from the Officer Operation Group and the Investment Committee, the revised policies were approved by the BCPP Board on 11th November.

RI Policy: key changes

7. This year's RI Policy review reflects work undertaken during the year; this includes the Net Zero commitment. All changes are shown as track changes in the attached Annexe 1, with a clean version shown as Annexe 2.

8. Human rights are an area receiving increased focus from investors. To support this social engagement theme, BCPP have joined an initiative led by the PRI. To recognise the importance of this area they have highlighted their expectation of companies in the RI Policy, including reference to further detail on their voting approach in our Voting Guidelines.

9. Minor amendments have been made to some of the specific sections when integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, and the impact of the BCPP Net Zero commitment.

10. Due to the development and publication of a standalone Climate Change Policy, the climate change section within the RI Policy was significantly reshaped last year. This included reference to the exclusions put in place for thermal coal and oil sands. Due to the BCPP Net Zero commitment, it was articulated that subsequent Climate Change Policy reviews could lead to reductions in the revenue thresholds for exclusions.

11. When considering any exclusions, BCPP conduct analysis of the associated material financial risk of a company's business operations and whether they have concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour.

12. As part of this year's annual RI policies review process the approach has been revisited by BCPP. Revenue thresholds for thermal coal and oil sands have been reviewed with analysis conducted across equity and fixed income funds, associated benchmarks and the MSCI Universe to identify potential companies that managers may also invest in off benchmark. BCPP propose to decrease the revenue threshold to >70% for investments in public markets, with a lower threshold of 25% for private markets to reflect the long-term nature of these investments. This still reflects the risk criteria used to determine the original exclusions in last year's policy.

13. Controversial weapons were highlighted as an area to consider for exclusions last year but due to a lack of data and ability to screen portfolios effectively this was deferred. As additional screening tools are now available the analysis of cluster munition companies has been conducted across portfolios, associated benchmarks and the MSCI Universe.

14. Following this the proposal is to extend the exclusion policy to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions.

15. As exclusions have broadened following this annual review, BCPP now have a separate section in the policy specifically detailing their approach.

16. Consistent with their support for a just transition BCPP recognise that not all countries are at the same stage in their decarbonisation journey. They propose to assess the implications of the thermal coal and oil sand exclusions and may make exceptions if they consider this to be appropriate.

17. Minor amendments were made following feedback from Partner Funds. This includes additional wording at 6.2.3 regarding the direction of travel for

revenue thresholds on thermal coal and oil sands, and wording on just transition and Emerging Markets.

18. Surrey have voiced concerns about the appropriateness of proposed revenue thresholds for exclusion of <70% for thermal coal and oil sands in public markets. We have questioned whether companies with revenues approaching this level indicate a realistic intent to make the necessary transition to decarbonisation. Although no B2C portfolios currently include exposure to thermal coal and oil sands companies, B2C have agreed to provide worked examples should such investment opportunities be considered.

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

Section	Page	Type of Change	Rationale
1. Introduction	2	Amendment	Update on UK Stewardship Code signatory status.
1.1 Policy framework	3	Amendment	Revised diagram to include Climate Change Policy
2. What is responsible investment	3	Amendment	Insertion of 'opportunities'.
3. Governance and implementation	3	Amendment	Revision on use of term 'sustainability'.
5. Integrating RI into investment decisions	4 4 4	Amendment Addition Addition	Remove 'internally and externally managed'. Add 'Pay conditions' to table under social issues New text on human rights.
5.2 Private markets	5	Addition	Reference to annual monitoring questionnaire.
5.4 Real estate	6	Amendment	Revised in line with TCFD report.
5.5 External manager selection	6	Addition	Update on climate change and net zero.
5.6 Climate change	7 7	Amendment Addition	Text on exclusions cut and moved to new section. New text on just transition.
6 Stewardship	7	Amendment	Update on Stewardship Code signatory status

Section	Page	Type of Change	Rationale
6.1.1 Use of proxy advisors	8	Amendment	Removal of Voting & Engagement provider name.
6.2.3 Exclusions	11 - 13	Addition	New section on exclusions.
6.3 Due diligence and monitoring procedure	13	Amendment	Removal of Voting & Engagement provider name.
8. Communication and reporting	13	Addition	Reporting on progress on implementation of Net Zero Plan.
10. Conflicts of interest	14	Addition	Includes reference to stewardship conflicts.
Appendix A	14	Addition	New section referencing third-party providers.

8

20. The policies were presented to the BCPP Board on 9th November and the revisions approved. There is then a period where Partner Funds take the revised policies to their committees to begin their internal alignment process. The revised policies will be effective from 1st January 2023.

Voting guidelines: key changes

21. The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2022 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text. All changes are shown as track changes in the attached Annexe 3, with a clean version shown as Annexe 4.

22. As BCPP have one set of Voting Guidelines that cover all markets, there have been some additions/amendments to reflect best practice or local market standards. This assists the proxy adviser and their Voting & Engagement provider, when interpreting the Voting Guidelines and making voting recommendations.

23. During last year's policy review, feedback was received on the text covering stakeholder engagement. To ensure that wider stakeholders are referenced, not just shareholders, additional wording has been included in this section.

24. A new section on human rights has been included to support the addition to the RI Policy.

25. Amendments have been made to the climate change section to continue to strengthen the Voting Guidelines in this area and to support BCPP's Net Zero commitment.

26. This year BCPP have revised when they will vote against the Chair of the board based on the Transition Pathway Initiative (TPI) assessment of companies, moving to level 2 for high emitting sectors, and level 3 for Oil and Gas companies. They have also made revisions when reviewing companies

failing Climate Action 100+ Net Zero Benchmark indicators and will vote against the Chair where a company fails one or more of the first four indicators.

27. As banks will play a pivotal role in the transition to a low carbon economy, BCPP have set out climate-related voting intentions for the sector. They propose to assess banks using the framework developed by the Institutional Investors Group on Climate Change (IIGCC) and the TPI. They will vote against the Chair of the Sustainability Committee, or appropriate agenda item if a company fails the first four indicators of the framework.

28. Proposed amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below:

8

Section	Page	Type of Change	Rationale
Composition and independence	3 4	Amendment Addition	Remove 'large cap'. Detail on expectations of overall board tenure.
Leadership	4	Addition	Clarification on voting intention, considering market practice.
Diversity	5	Amendment	Expectations of FTSE 100 and FTSE 250 companies.
Succession planning	5	Amendment	Remove 'solely' to cover all jurisdictions.
Stakeholder engagement	6	Addition	Additional reference to key stakeholders and expectations of the board.
Long-term incentives	8	Addition	To cover standards for other markets.
Human rights	14	Addition	New section to articulate voting approach and expectations of companies.
Climate change	12 13 13 13	Amendment Amendment Addition Addition	Text amended to reflect changes to Climate Change Policy. Revised thresholds for TPI and CA100_ indicators. New text regarding banks New text on just transition.

Climate change policy: key changes

29. The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry.

30. The original Policy highlighted areas for focus over the 12-months post publication in October 2021. These have also been captured in the proposed

updates and amendments. The main changes are detailed below. All changes are shown as track changes in the draft Policy attached as Annexe 5, with a clean version shown as Annexe 6.

31. The Just Transition was not previously referenced in the Policy. BCPP believe this is an important area as the transition to a low carbon economy should consider all stakeholders and be inclusive whilst recognising global inequalities.

32. The roadmap only covered the 12-months to September 2022, this has been replaced with the reporting and monitoring timeline included in the Net Zero Implementation Plan which provides milestone out to 2050.

33. As BCPP have used the Net Zero Investment Framework (NZIF) and joined the Net Zero Asset Managers initiative (NZAM) this has been added to the Policy. The scope of the assets covered and high-level wording on targets is now included. Extra detail is also included on the expectations of BCPP's external managers regarding engagement, and how they will work with them on implementing specific decarbonisation parameters for these mandates.

34. An update on exclusions was presented to the August Investment Committee. Following an in-depth discussion, the recommendation was to reduce the revenue threshold for thermal coal and oil sands to 70% and include a lower threshold (25%) for private markets, this is to reflect the illiquid nature of these types of investments. Surrey's position on this was noted in paragraph 18.

35. The engagement section has been updated. This includes revising the wording on how BCPP will exercise their votes in relation to companies in high emitting sectors. These are in line with the proposed revisions to the Voting Guidelines. Reference has also been made to the IIGCC's Net Zero Stewardship Toolkit which they have used to further develop their stewardship approach, aligning with NZIF and our membership of NZAM.

36. Some minor updates have been made to the disclosures and reporting section to include how BCPP will report on progress against our Net Zero commitment.

37. The amendments to the Climate Change Policy are highlighted in the table below:

Section	Page	Type of Change	Rationale
2.1. BCPP views and beliefs on climate change	2	Addition	Impact of climate change on the investment universe.
2.2 Why climate change is important	3 4	Addition Addition	Reference to physical and transition risk. Included text on a Just Transition.
2.4 Roadmap	6	Revision	Replace with timeline going out to 2050.

Section	Page	Type of Change	Rationale
3.1 BCPP ambition – Net zero	7	Amendment	Reference use of NZIF and joining NZAM.
3.5 Regulatory change management	8	Revision	Reviewed by Head of Compliance.
4.1 How BCPP identify climate-related risks	8	Revision	Revised in line with TCFD report.
4.2 How BCPP assess climate-related risks and opportunities	9	Revision	Update on climate change scenario analysis.
5.1 BCPP approach to investing	9 10	Addition Amendment	Text on engagement as a key lever for reducing emissions – investee companies and fund managers (private markets). Revise exclusion threshold to 70% from 'pure'; 25% for illiquid assets.
5.2 Acting within different asset classes	10 10 10	Addition Amendment Addition	Extra data sources used. Reference to Climate Opportunities offering. Reference to targets set at portfolio and asset class level.
5.3 Working with external managers	11 11	Addition Addition	Engagement expectations. Encourage managers to set firm wide net zero commitment and join NZAM. Working with managers on decarbonisation parameters for mandates.
6. Engagement and advocacy	11	Addition	Reference to engagement with regulators, policy makers etc.

8

Section	Page	Type of Change	Rationale
6.1 Our approach to engagement	11	Addition	Additional areas for engagement e.g. Just Transition.
	12	Amendment	Revisions to voting text in line with proposed revisions to Voting Guidelines.
	12	Addition	Reference to use of Net Zero Stewardship Toolkit.
7. Disclosures and reporting	12/13	Amendment	Reporting on Policy implementation and progress against Net Zero commitment.

8

The Governance Framework of BCPP

38. The three main governance documents which support the establishment and running of BCPP are:

    a) Shareholder matters: Shareholder Agreement / Articles of Association.
    b) Joint committee matters: Inter Authority Agreement.

39. A review of the BCPP Governance is currently in progress, as it has been five years since BCPP was established and the initial governance framework approved by the shareholders.

40. The review includes the operation of the Joint Committee, a review of shareholder governance (which will be discussed with shareholder representatives) and a review of the governing documentation (including the Inter Authority Agreement, Shareholder Agreement, and the Company's Articles of Association).

41. A four-stage process was proposed:

    a) Stage 1 - initial work to discuss the areas identified below (and any others considered relevant) and agree the matters to be put forward to stage 2, together with a proposed basis for consideration.
    b) Stage 2 – involves a cross section of interests covering Partner Funds (both Members of the Joint Committee and Officers) and company. This group considered the initial proposals from Stage 1.
    c) Stage 3 – involves a review of the proposed changes by an external legal advisor. They carried out a high-level review of the key governance documentation to establish if there are any other provisions in the agreements that need to be amended. Consideration was also given to

how to effect any changes to these legal agreements. For example, does each Administering Authority need to get sign off at full Council of changes to these agreements, as the agreements were initially taken to full council.

d) Stage 4 – implementation. Each Partner Fund and the Board will progress through relevant governance process.

42. All Partner Funds and BCPP will need to agree to the proposed changes. A verbal update on the position will be given to the JC.

43. The focus of the review is to update the terms of reference of the JC, which are contained in the Inter Authority Agreement and the Shareholder Reserved Matters which are included in the Shareholder Agreement. There are also some changes proposed to the Articles of Association for BCPP, which broadly set out how the company should be run. A summary of the main changes is shown below:

8

a) The appointment of the Chair and Vice Chair is currently restricted to two consecutive terms of one year. It is proposed that this is changed to two consecutive terms of two years.
b) The quorum for the JC is to be changed from 8 out of 11, to 60% of the voting members which would be 7 out of 11.
c) The creation of an urgent action protocol that allows a decision to be taken outside of a normal meeting schedule. This would be a form of delegated power exercised by the Host Authority (currently South Tyneside) in consultation with the Chair and Vice Chair.
d) The removal of several items currently under the remit of the JC where they are no longer considered relevant, because they relate to the period before BCPP became operational or they are now considered to be shareholder matters.
e) The Shareholder Reserved Matters are split into two categories. The first requires 100% approval from shareholders and the second currently requires 75% approval (or 9 out of 11). It is proposed to change the 75% limit to 66.6% (which will be 8 out of 11).
f) As with the Terms of Reference of the JC, some of the Shareholder Reserved Matters are no longer relevant, as they covered the initial set up period. These items will be removed.
g) Additional clarification of some of the matters reserved for approval by shareholders has been sought from the legal advisors and the language may therefore be amended. This is to be discussed with BCPP and its legal team.
h) Amending a clause with a financial limit in order to set the limit by reference to a formula. This will help future proof the provision.
i) Removal of the requirement for shareholders to approve a conflicts of interest policy for BCPP. This is a company matter. However, shareholders will still be required to approve any conflict or potential conflict of interest any director may have.
j) To increase the maximum number of directors from 8 to 10. The appointment of any directors will still be a shareholder reserved matter.

44. Although not specifically covered in any of the Governance Documents, the administering authorities acting as shareholders of BCPP had determined that any Non-Executive Director nominated by the administering authorities should serve a two-year term for a maximum of two terms. It is proposed that this be changed to two, three-year terms.

45. One issue that will need to be addressed is that some changes may be needed in respect of the re-organisation of Cumbria County Council, which will result in a change to the administering authority of the Cumbria County Council Pension Fund. The best way to address this is still under consideration but may result in some changes to the Articles and Shareholders' Agreement to cover this and future proof similar scenarios in the future. However, given that this is unlikely to be contentious, partner funds have been asked to progress with the current documentation and this will be addressed prior to the final sign off.

8

46. Once the final documentation is agreed and each Administering Authority has determined its own approach to seeking approval, the review can progress to implementation. The approach at Surrey will be for any proposed changes to be approved firstly by the Pension Fund Committee and recommended for approval by Surrey County Council.

47. Draft versions of the governance documents have been shared with Partner Funds earlier this year. These were considered by the Surrey Local Pension Board and the Chair of the Committee. The documents have been discussed with BCPP and been subject to review by the Surrey legal team as well external lawyers (Eversheds Sutherland for BCPP and Squire Patton Boggs on behalf of the partner Funds).

48. Squire Patton Briggs (SPB) have shared their final review findings with each partner fund. SPB, has issued a letter of advice (Annexe 7).

49. SPB confirm that they are comfortable that the changes being made to the documents are acceptable from a legal perspective and can be agreed by the Partner Funds. The Surrey legal team have also been consulted and are satisfied with this due diligence carried out by SPB.

50. The Surrey pension fund's membership of BCPP was originally approved by full council on the 17 March 2017, as the County Council's pooling option to provide compliance with the legislation that mandates pooling.

51. In accordance with recommendation 2 in this report, the Committee is asked to approve the proposed changes to the Stakeholder agreement, Articles of Association and Inter Authority Agreement outlined in this report and recommend approval by full Council.

52. In accordance with recommendation 3 in this report, in order to promote good governance, the Committee is also asked to recommend to full Council that

future decisions in respect of BCPP matters are delegated in the following way:

a) Inter authority agreement matters (joint committee) – to the Pension Fund Committee.
b) Articles of Association and shareholder agreement matters – to the shareholder representative (the Section 151 officer or their delegate, in consultation with the Chair of the Pension Fund Committee).

Schedule of activity

8

53. The table below notes activity of partner Funds with BCPP since the last Committee meeting of 23 September 2022 until the end of the calendar year:

September 2022		
26th September	BCPP - levelling up / impact / local investing Workshop	Discussion on direction of travel following consultation.
29th September	Joint Committee Meeting	
29th – 30th September	BCPP Conference	
October 2022		
3rd October	Officer's Operations Group Meeting	
6th October	Regional Equity Alpha	Design discussion on development of the Regional Equity Alpha Fund.
17th October	Internal Management – Quarterly Update	To cover the previous quarters investment management and performance following the issuing on the Quarterly Investment report.
18th October	External Management – Quarterly Update Part 1	To cover the previous quarters investment management for UK Equity Alpha, Global Equity Alpha & Emerging Markets Hybrid.
20th October	External Manager update	Presentation from one of the External Managers on Markets, Philosophy and Performance.
21st October	External Management – Quarterly Update Part 2	To cover the previous quarters investment management for Investment Grade Credit & MAC.
27th October	Alternative Investments – Quarterly Update	To cover the previous quarters investment management and performance following the issuing on the Quarterly Investment report.
November 2022		
7th November	Green Bonds	Follow up workshop to discuss potential design ideas for Green Bond investments.
15th November	Joint Committee Responsible Investment Workshop	Workshop on the annually reviewed BCPP Responsible Investment Policy
30th November	Joint Committee Meeting	
December 2022		
5th December	Officer's Operations Group Meeting	
12th December	Alternatives Series 2b Pipeline	Workshop to look at the investment pipeline for the launch of Series 2b of the Alternatives Fund range

BCPP Joint Committee (JC) meeting 30 November 2022 (summary)

54. The BCPP JC is made up of the Chairs of the respective Pension Fund Committees from the 11 Partner Funds. The primary purpose of the JC is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

Scheme Member Representatives Election Results

55. Terms of the Inter Authority Agreement (IAA) together with the Joint Committee's Constitution and other subsequent decisions and agreements require that elections are held for Scheme Member Representatives.

8

56. Following the resignation of Deirdre Burnet a by-election has been held for a scheme member representative. The voting constituency was made up of scheme member representatives of partner fund Local Pension Boards (the scheme member representative for the Surrey Local Pension Board is Trevor Willington). The election was conducted by South Yorkshire Pensions Authority during November and the results were as follows:

    a) Lynda Bowen: 6 votes.
    b) Karen Thomson: 3 votes.
    c) Nil returns: 2.

57. The election process also provided an opportunity to consult on whether Scheme Member Representatives should be limited to two terms of two years. The views of the consultees were as follows:

    a) Agree: 7 votes.
    b) Disagree: 2 votes.
    c) Nil Returns: 2 votes.

58. The JC agreed the following:

    a) The appointment of Lynda Bowen as a Scheme Member Representative.
    b) there should be no term limits for Scheme Member representatives.

JC budget

59. The budget for the JC covers costs incurred by the JC and the partner funds, including the secretarial services to convene and run meetings, and for collective advice and support (internal from partner funds and external sources) which may be required from time to time by all partner funds.

60. The budget for the JC in 2022/23 is £40,000.

61. Total spend to date is £25,300.

Investment capability

62. Achieving our purpose of making a difference to investment outcomes really begins in earnest when assets are pooled. A fundamental objective is therefore to transfer assets, always in the context of value for money and sustainability. To support this, significant work is undertaken between Border

to Coast and Partner Funds on an ongoing basis to understand needs and objectives.

63. BCPP and Partner Funds have previously agreed the process for working collectively and in partnership to identify the "building blocks" required to support Partner Funds' strategic asset allocations. This takes into account Partner Funds' objectives, risk management, capacity and costs to propose both a prioritisation of capability build and a process to enable Partner Funds to participate in sub-fund design.

64. The 2022-2025 strategic plan set out the continued process of launching these core building blocks. Great progress has been made in 2022, with the roadmap for real estate and an externally managed Emerging Markets equity fund well underway. With many of the core building blocks now in place, or soon to be, there is the opportunity to assess wider capabilities that can add value and further strengthen the benefits provided by pooling. In this respect, BCPP have also carried out initial work to scope out the potential design of a Green, Sustainable and Social Bonds solution, as well as a UK Opportunities capability.

8

65. BCPP and Partner Funds have considered the future capability development including new funds, capabilities and changes to existing funds. The Partner Funds have been undertaking reviews of their investment strategy alongside the results of their 2022 Actuarial Valuation. They are relatively early in the review cycle and, whilst some reviews are complete, the majority of these are progressing in the coming months. With recent market developments, Partner Funds are revisiting earlier decisions or evolving their strategies to reflect a higher yield environment. Therefore, at this stage, there is still some uncertainty on strategic needs in the near term.

66. This year, discussions on Partner Fund priorities have primarily been through the OOG meetings as well as a number of direct 1-to-1 meetings with the Partner Funds. These 1- to-1 conversations are still ongoing, and there remains a degree of uncertainty due to strategy reviews and changing market conditions. Set out in section 5 is an indicative plan for 2023-2026, with the following key points:

    A) The launch of real estate and an externally managed Emerging Markets equity fund remains a high priority in the near term. BCPP also propose to continue our work on UK Opportunities and Green Sustainable Social Bonds into 2023.
    B) Hedging and income distribution was scheduled to be considered in 2023/24. BCPP now propose to consider options for income distribution and currency hedging in 2023. Equity protection will be considered in 2024, as well as rebalancing and cashflow management which are both reliant on Northern Trust capabilities.
    C) BCPP ongoing launches of Alternatives will continue. BCPP propose to bring forwards the launch of the next Climate Opportunities iteration from 2025 to 2024.
    D) The degree of passive investment will drive the level of assets transferred. As previously noted BCPP plan to give further consideration to passive solutions, in particular those with a tilt towards ESG factors, in 2024 but some design work may take place in 2023.
    E) The demand and viability for Regional Equity continues to be explored with Partner Funds.

F) BCPP will monitor demand for new capabilities that they understand are being discussed with consultants as part of ongoing strategic reviews, including natural capital, asset backed securities, absolute return bonds and small cap equities. Further consideration of these will be subject to two 'red-lines': the need for solutions to have scale and be viable throughout an economic cycle.

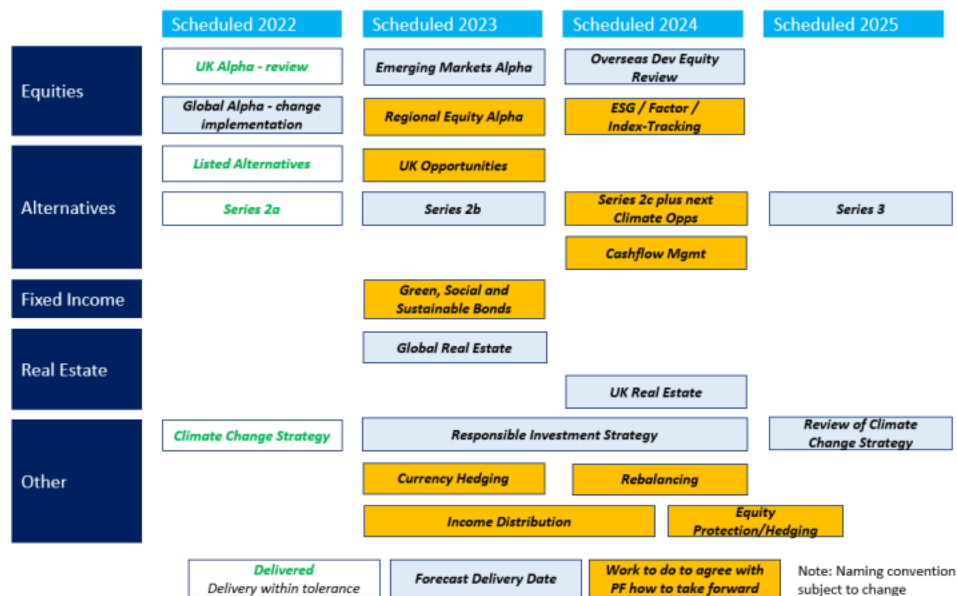
G) Part of the development process includes an assessment of the changes required to our operating model, including any additional resources, which feeds into the assessment of the value for money business case. The strategic plan will not reflect such resources until we have agreement to proceed to build (property and private markets being two areas that could require substantive additional resource). Launch timings for funds still to go through the design phase are indicative only.

8

67. The approach to asset transfer and fund design / launch was last reviewed with the Joint Committee in November 2021. BCPP continue to take feedback and learn from each sub-fund launch, and are monitoring progress using the quarterly Management Information.

68. With an uncertain outlook, and work on investment strategy still ongoing, BCPP need to have the ability to respond to changing conditions and requirements. With this in mind, the schedule will be kept under review, and it may be appropriate to hold back resource to allow the response to be agile.

69. Based on discussions to date so far, and the latest understanding of Partner Fund priorities, the indicative fund launch plan to 2026 is set out below:



70. The graph below shows the total picture for expected transition of assets into the pool:

a) Solid green line: expected transition based on the 2019/20 Investment Strategy Statement ("ISS") and the 2020 BCPP budgeting forecasts agreed with the Partner Funds.

b) Dotted green line: best estimate of transition based on ongoing discussions between BCPP and Pensions Officers. This can diverge from

the ISS due to differences between tactical and strategic asset allocation; Partner Funds not allocating in full; and/or assumed timing of transition. This is not the same as committed assets (which follow the due diligence and Pension Committee process) and may also change as Partner Funds review their ISS.

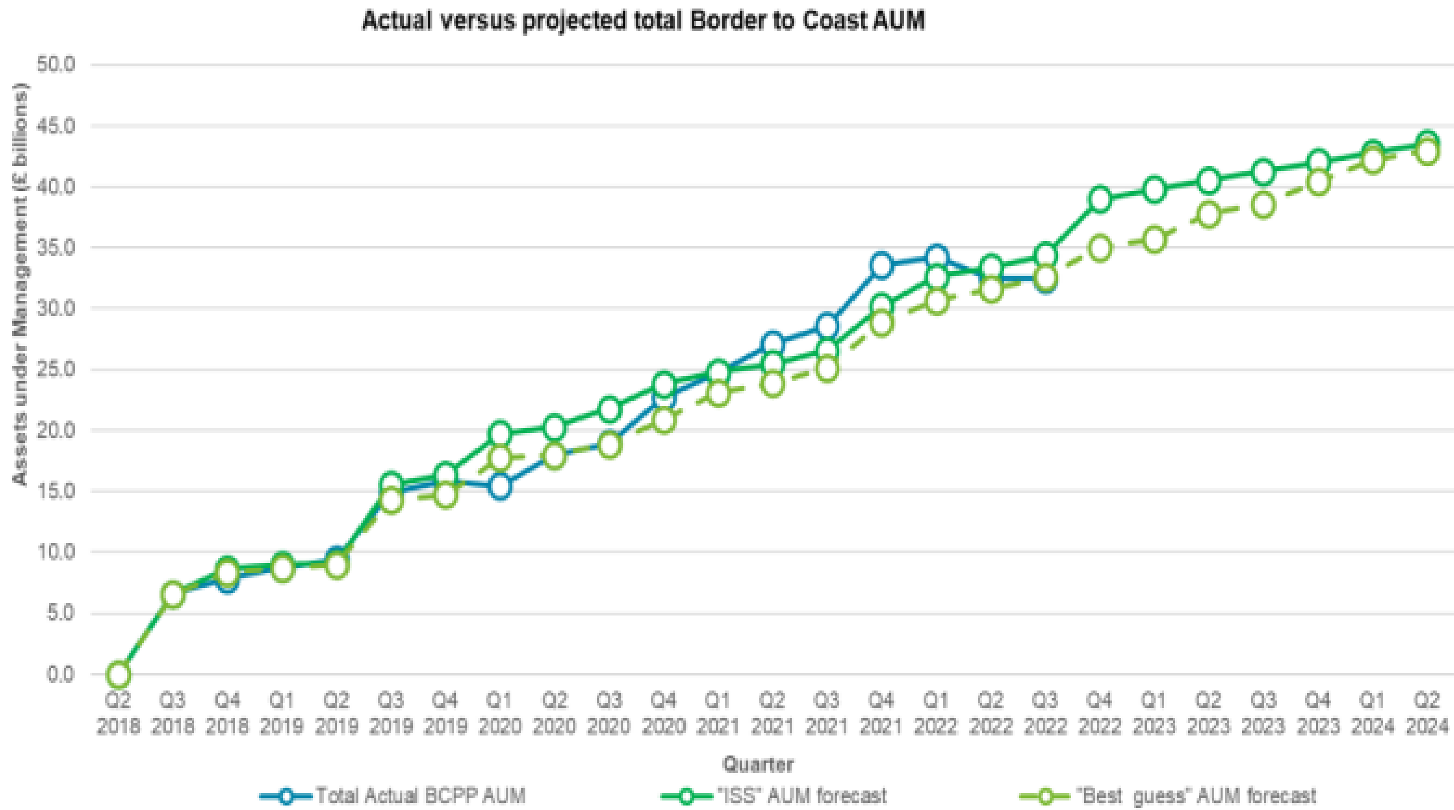
c) Blue line: actual AUM transferred to date (this is subject to market value fluctuations).

71. This is used to inform discussions with Partner Funds regarding fund design and underpins the strategy of BCPP as an organisation – enabling Partner Funds to hold each other to account on the commitments they have made to each other to pool, as well as holding BCPP to account on the development of propositions. It is also used to inform potential impacts on Partner Fund invoicing as the business grows.

8

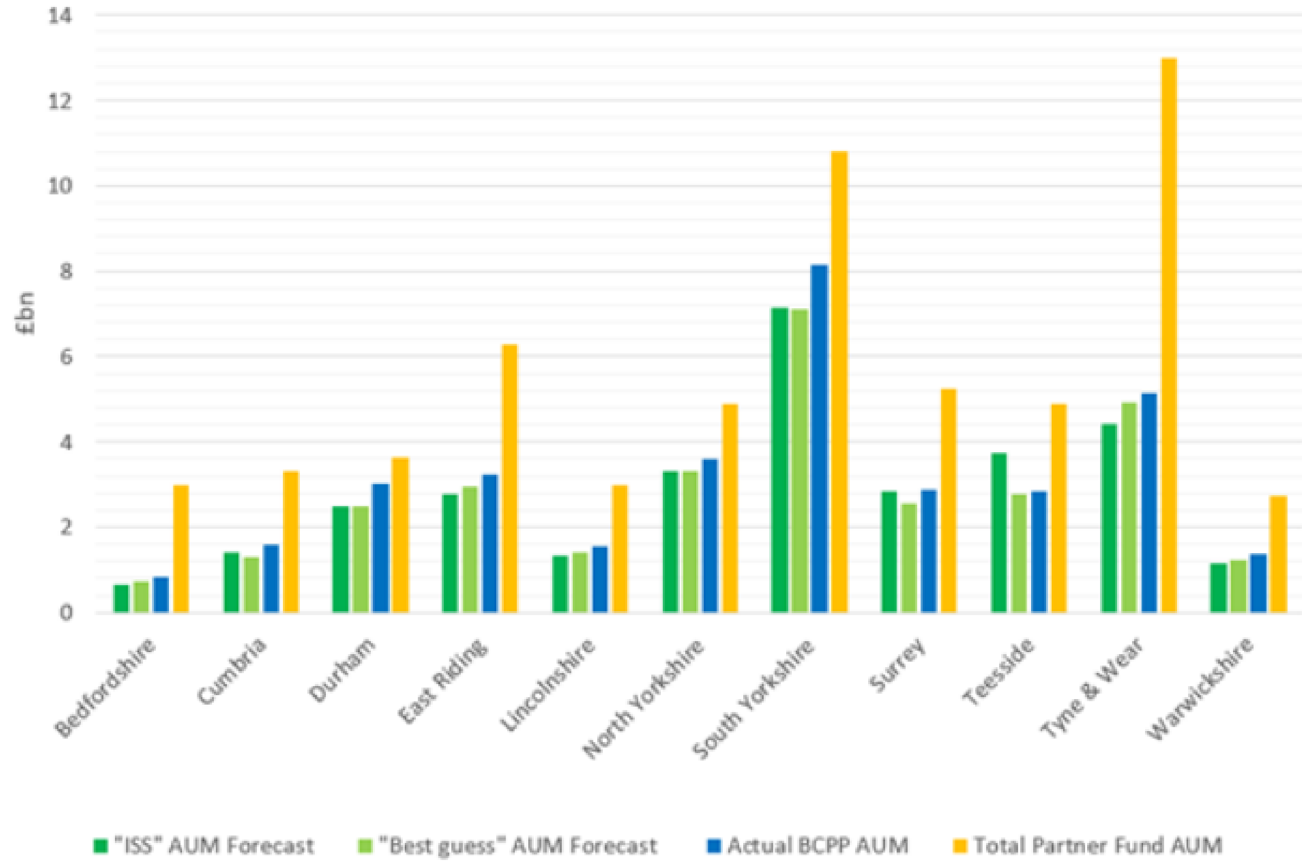
72. The difference between total pool assets and assets available to pool is primarily driven by passive assets, but there are also legacy alternative assets where the process for transition has yet to be agreed.

73. Illustrated by the below graph, investment within BCPP funds is broadly in line with the ISS expectations:

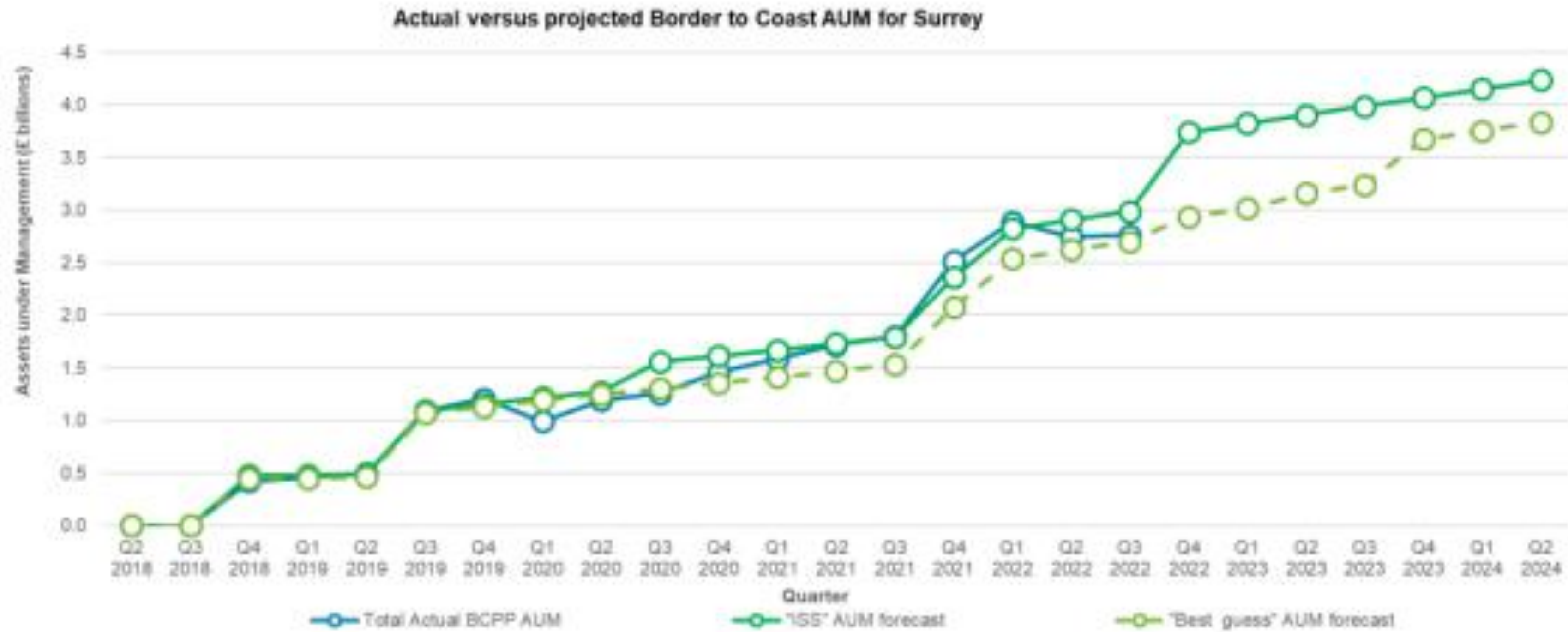


8

74. The following chart shows the split by Partner Fund as at 30 September 2022:



75. The following chart shows Surrey's tracked position as at 30 September 2022:



Page 83

8

76. ‘Actual’ and ‘expected’ track relatively well with a modest gap between ISS projections and commitment. Surrey has a modest gap between ISS projections and the expected investments with BCPP due to maintaining an allocation to gilts outside of the pool. The Funds invests in equities, multi-asset credit, listed alternatives and alternatives with BCPP. The Fund has considered their Strategic Asset Allocation at a high level alongside the results of the Actuarial Valuation and is expected to finalise the detail of this in 2023, following consideration of their approach to climate change. Surrey is intending to transfer its property holdings to the BCPP solution, subject to due diligence. There is a 27.1% passive allocation, including allocation to Future World Fund.

CONSULTATION:

8

77. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

78. The consideration of risk related issues is an integral part of the BCPP project plan and a risk register is presented to every Officer Group and Joint Committee meeting.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

79. The full cost/benefit analysis of pooling will be established when all assets are transferred, and a reliable track record established.

DIRECTOR CORPORATE FINANCE & COMMERCIAL COMMENTARY

80. The Director Corporate Finance & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed. The Director Corporate Finance & Commercial will continue to work closely with other officers and the other BCPP S151 officers to ensure effective governance and assurance of administering authority responsibilities under the new pooling arrangement.

LEGAL IMPLICATIONS – MONITORING OFFICER

81. The pool’s appointed legal advisors have provided legal support for relevant issues, as outlined in this report. Surrey’s legal team have been consulted in respect of proposed governance changes.

EQUALITIES AND DIVERSITY

82. There are no equality or diversity issues.

OTHER IMPLICATIONS

83. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

84. The following next steps are planned:

a) Proposed governance changes to be presented to Full Council for approval.
b) Continued allocation to BCPP private market opportunities in private equity, infrastructure and private credit.
c) Subject to completion on necessary conditions, transition the property element of the Surrey Pension Fund portfolio to the BCPP property sub-funds.
d) Subject to completion on necessary conditions, transition the Emerging Market equity element of the Surrey Pension Fund portfolio to the BCPP Emerging Market Equity Alpha sub-fund.

Contact Officer:
Neil Mason, Assistant Director – LGPS Senior Officer

Consulted:
Pension Fund Committee Chairman

Annexes:

1. Draft BCPP RI policy (with tracked changes).
2. Draft BCPP RI policy (clean).
3. Draft Corporate Governance & Voting Guidelines (with tracked changes).
4. Draft Corporate Governance & Voting Guidelines (clean).
5. Draft Climate Change Policy (with tracked changes).
6. Draft Climate Change Policy (clean).
7. Squire Patton Boggs: Letter of advice

Sources/background papers:

1. Shareholder Agreement.
2. Articles of Association.
3. Inter Authority Agreement.

Responsible Investment Policy

Border to Coast Pensions Partnership

January 2023

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership follows in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain 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 eleven 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.

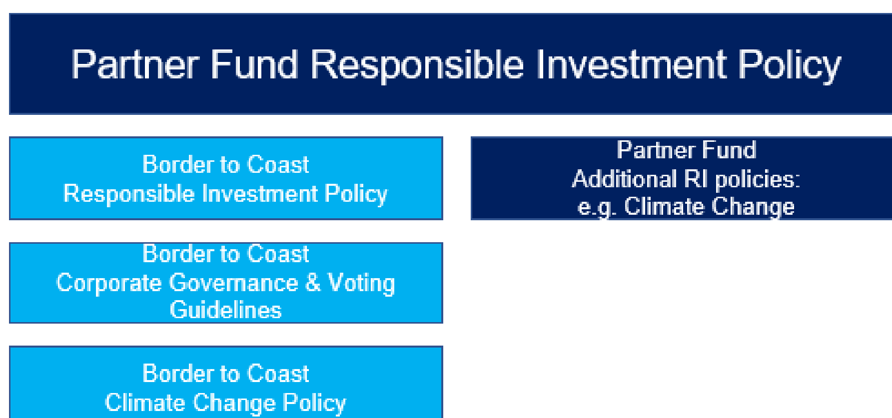
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. 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 across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. As a long-term investor and representative of asset owners, we hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We 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 practices active ownership through voting, monitoring companies, engagement and litigation.

1.1. Policy framework

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. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



8

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 and the opportunities 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 the integration of sustainability and responsible investment, which are 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 (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven 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, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast, where needed, takes proper advice in order to formulate and develop policy. The Board and staff maintain appropriate skills in responsible investment and stewardship

through continuing professional development; where necessary expert advice is taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers 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.

8

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues are considered and monitored in relation to all asset classes. The CIO is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards Pay conditions (e.g. living wage in UK)	Board independence Diversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all assets of Border to Coast. More information on specific approaches is outlined below.

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 necessary 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; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings is shared with the team to increase and maintain knowledge, and portfolio managers are 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 takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is 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 are requested to complete an annual monitoring questionnaire which contains both binary and qualitative questions, enabling us to monitor several key performance indicators, including RI policies, people, and processes, promoting RI and RI-specific reporting.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

8

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

5.4. Real estate

Border to Coast is preparing to launch funds to make Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process will be an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will include energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI

strategies for direct investment which includes procuring a third-party manager and working with them to develop our approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process which includes assessing and mitigating climate risk, and their approach to engagement.

8

We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

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 also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are expected to be signatories or comply with international standards applicable to their geographical location. We encourage managers to become signatories to the UN-supported Principles for Responsible Investment[1] ('PRI'). We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest 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.

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include

[1] The UN-supported 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.

the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves maximising the social and economic opportunities and minimising and managing challenges of a net zero transition. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

8

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 practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[2] and were accepted as a signatory in March 2022. IWe are also a signatory to the PRI..

6.1. Voting

Voting rights are an asset and Border to Coast exercises its rights carefully to promote and support good corporate governance principles. It aims 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**. Where possible the voting policies are also applied to assets managed externally. Policies are reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1. Use of proxy advisors

Border to Coast use a Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by the Voting & Engagement provider. The proxy voting advisor provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A 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 is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

---

[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/directors/corporate-governance-and-stewardship

INTERNAL

The Voting and Engagement provider evaluates its 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 the control framework and is externally assured. Border to Coast also monitors the services provided monthly, with a six monthly and full annual review.

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 is recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- 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 to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; 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 refrain from voting those shares.

Where appropriate Border to Coast considers co-filing shareholder resolutions and notifies Partner Funds in advance. Consideration is 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 is 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 eleven 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 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

INTERNAL

deemed likely to be more effective than acting alone. This is 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, Border to Coast use an external Voting and Engagement service provider. We provide input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate in some of the engagements undertaken on our behalf.
- Engagement takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these cover environmental, social, and governance issues as well as UN Global Compact[4] breaches or OECD Guidelines[5] for Multinational Enterprises breaches.
- We 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 policies.

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 or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on the validation of a potential breach, the severity of the breach and the degree of to which management can be held accountable for the issue. For all engagements, SMART[6] 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. Members of the Investment Team have

[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.

[5] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[6] SMART objectives are: specific, measurable, achievable, relevant and time bound.

access to our engagement provider's thematic research and engagement records. This additional information feeds into the investment analysis and decision making process.

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

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. 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.

6.2.3 Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

8

Thermal coal and oil sands:

Using these criteria and due to the potential for stranded assets, we will not invest in companies with more than 70% of revenues derived from thermal coal and oil sands. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.

Cluster munitions:

In addition, we will not invest in companies contravening the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention. Therefore, as a responsible investor we will not invest in the following:

- Companies where there is evidence of manufacturing cluster munition whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

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. 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.

The Voting and Engagement provider also undertakes verification of its stewardship activities and the external auditor audits stewardship 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, where appropriate, we participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We 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 work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed. This is 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 also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast offers the Partner Funds training on RI and ESG issues. Where requested, assistance is 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.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

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, this includes potential conflicts in relation to stewardship.

Appendix A: Third-party Providers

Voting and Engagement provider	Robeco Institutional Asset Management BV	June 2018 - Present
Proxy advisor	Glass Lewis	June 2018 - Present

INTERNAL

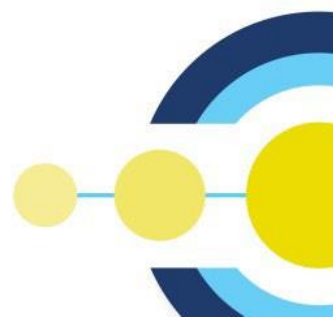
This page is intentionally left blank

Responsible Investment Policy

Border to Coast Pensions Partnership

8

January 2023



Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership follows in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain 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 eleven 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.

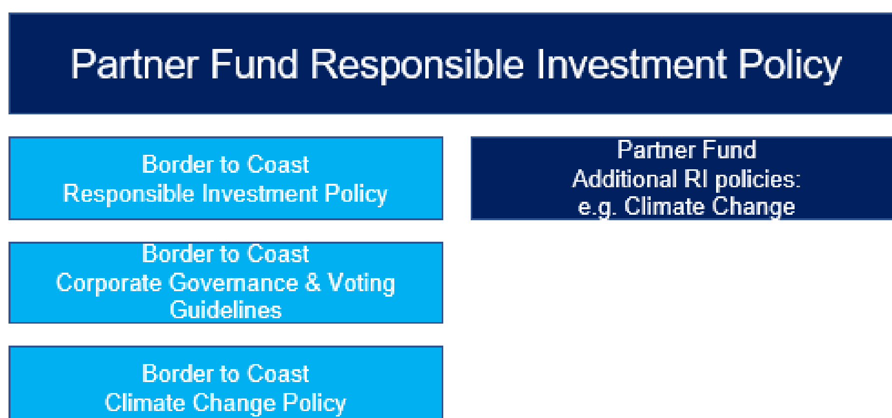
8

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. 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 across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. As a long-term investor and representative of asset owners, we hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We 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 practices active ownership through voting, monitoring companies, engagement and litigation.

1.1. Policy framework

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. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework.



8

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 and the opportunities 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 the integration of sustainability and responsible investment, which are 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 (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven 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, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast, where needed, takes proper advice in order to formulate and develop policy. The Board and staff maintain appropriate skills in responsible investment and stewardship

through continuing professional development; where necessary expert advice is taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers 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 are considered and monitored in relation to all asset classes. The CIO is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards Pay conditions (e.g. living wage in UK)	Board independence Diversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all assets of Border to Coast. More information on specific approaches is outlined below.

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 necessary 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; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings is shared with the team to increase and maintain knowledge, and portfolio managers are 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 takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is 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 are requested to complete an annual monitoring questionnaire which contains both binary and qualitative questions, enabling us to monitor several key performance indicators, including RI policies, people, and processes, promoting RI and RI-specific reporting.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

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

5.4. Real estate

Border to Coast is preparing to launch funds to make Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process will be an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will include energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for

8

direct investment which includes procuring a third-party manager and working with them to develop our approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process which includes assessing and mitigating climate risk, and their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

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 also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are expected to be signatories or comply with international standards applicable to their geographical location. We encourage managers to become signatories to the UN-supported Principles for Responsible Investment[1] ('PRI'). We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest 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.

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves maximising the social and economic opportunities and minimising and managing challenges of a net zero transition. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

[1] The UN-supported 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.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

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 practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[2] and were accepted as a signatory in March 2022. We are also a signatory to the PRI.

8

6.1. Voting

Voting rights are an asset and Border to Coast exercises its rights carefully to promote and support good corporate governance principles. It aims 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**. Where possible the voting policies are also applied to assets managed externally. Policies are reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1. Use of proxy advisors

Border to Coast use a Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by the Voting & Engagement provider. The proxy voting advisor provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A 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 is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

The Voting and Engagement provider evaluates its 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 the control framework and is externally assured. Border to Coast also monitors the services provided monthly, with a six monthly and full annual review.

[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/directors/corporate-governance-and-stewardship

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 is recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- 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.

8

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; 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 refrain from voting those shares.

Where appropriate Border to Coast considers co-filing shareholder resolutions and notifies Partner Funds in advance. Consideration is 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 is 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 eleven 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 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 is 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.

INTERNAL

- 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, Border to Coast use an external Voting and Engagement service provider. We provide input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate in some of the engagements undertaken on our behalf.
- Engagement takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these cover environmental, social, and governance issues as well as UN Global Compact[3] breaches or OECD Guidelines[4] for Multinational Enterprises breaches.
- We 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 policies.

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 or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on the validation of a potential breach, the severity of the breach and the degree of to which management can be held accountable for the issue. For all engagements, SMART[5] 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. Members of the Investment Team have access to our engagement provider's thematic research and engagement records. This additional information feeds into the investment analysis and decision making process.

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

---

[3] 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.

[4] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[5] SMART objectives are: specific, measurable, achievable, relevant and time bound.

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. 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.

6.2.3. Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

INTERNAL

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

Thermal coal and oil sands:

Using these criteria and due to the potential for stranded assets, we will not invest in companies with more than 70% of revenues derived from thermal coal and oil sands. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.

Cluster munitions:

In addition, we will not invest in companies contravening the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention. Therefore, as a responsible investor we will not invest in the following:

- Companies where there is evidence of manufacturing cluster munition whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

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. 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.

The Voting and Engagement provider also undertakes verification of its stewardship activities and the external auditor audits stewardship controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

8

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

8. Communication and reporting

Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed. This is 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 also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast offers the Partner Funds training on RI and ESG issues. Where requested, assistance is 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.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

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, this includes potential conflicts in relation to stewardship.

Appendix A: Third-party Providers

Voting and Engagement provider	Robeco Institutional Asset Management BV	June 2018 - Present
Proxy advisor	Glass Lewis	June 2018 - Present

This page is intentionally left blank

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

8

January 2023

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 Executive 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. In some instances, attendance at AGMs may be required.

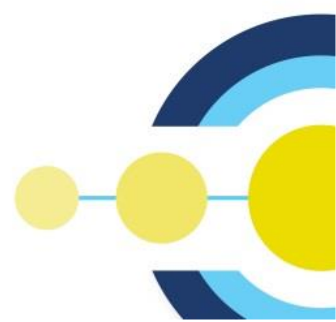
Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

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



INTERNAL

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 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.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

Leadership

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

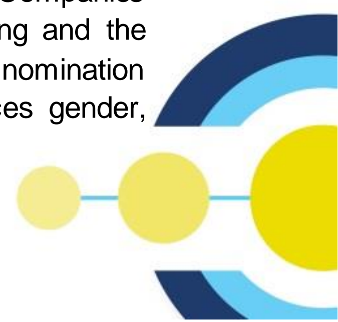
However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice 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. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

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 Chair 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 and inclusion 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, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024. We will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

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. The committee should comprise of a majority of independent directors or comply with local standards and be headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair's successor. External advisors may also be employed.

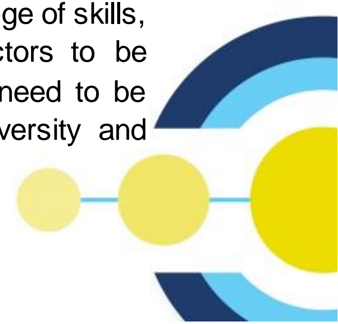
Directors' availability and attendance

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 issues such as 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. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

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. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. 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 need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

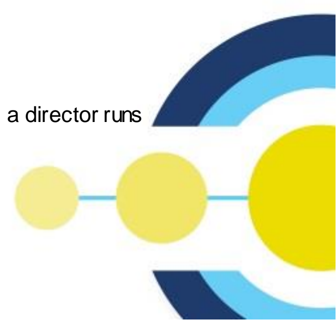
Engagement and dialogue with shareholders and wider stakeholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

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.

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.



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 high executive pay does not systematically lead to better company performance. 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.

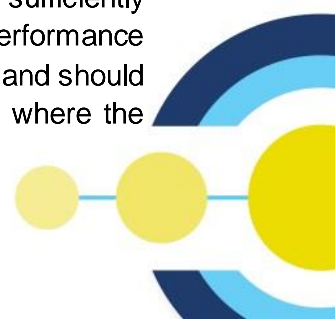
Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

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. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **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. 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. Executives' 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, taking into account local market standards. 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.

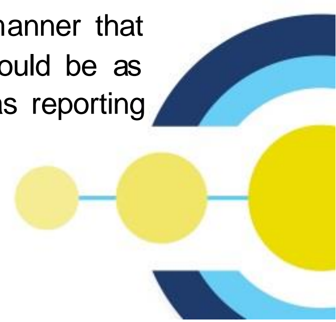
The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

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 be aligned with those of the majority of the workforce, 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 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.

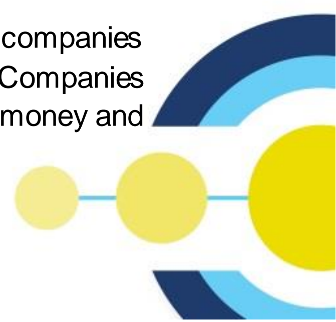
FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For 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. Any proposals concerning 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. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

8

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 unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

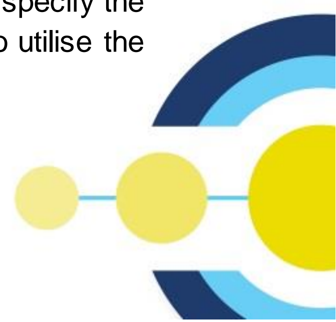
Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential 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.

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

Mergers and acquisitions

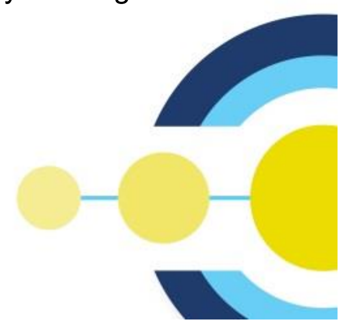
Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when 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.

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. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards 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.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

8

Human rights

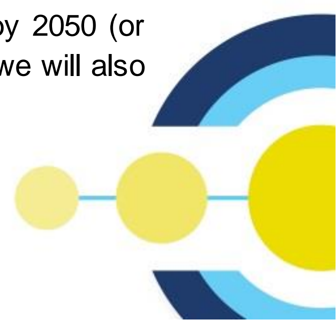
When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI) and the Climate Action 100+ (CA100+) Net Zero Benchmark. We will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower by the TPI. In addition, we will vote against the Chair for Oil and Gas companies scoring 3 or lower. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the Board.



Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, where a company materially fails the first four indicators of the framework.

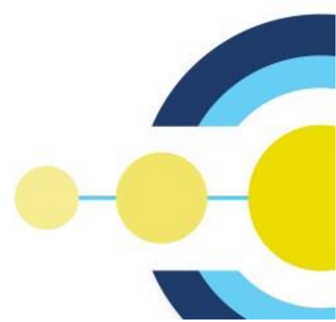
We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

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.

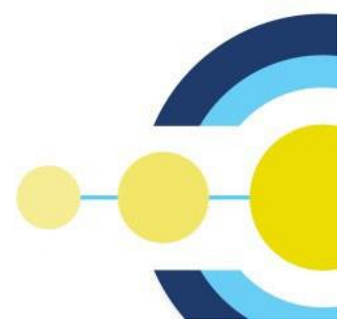


This page is intentionally left blank

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

January 2023



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

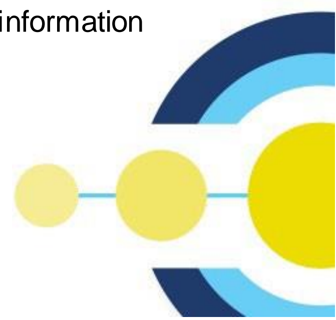
Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

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.

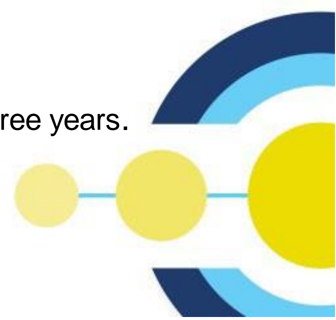
8

The board of 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.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

8

Leadership

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

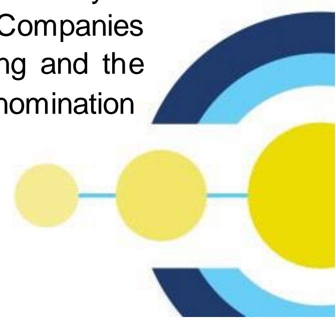
However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice 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. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

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 Chair 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 and inclusion 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, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024. We will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

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. The committee should comprise of a majority of independent directors or comply with local standards and be headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair's successor. External advisors may also be employed.

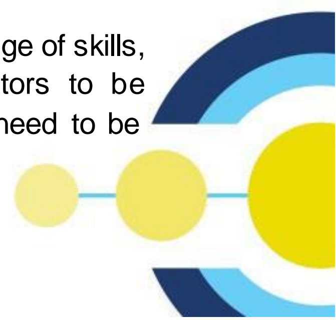
Directors' availability and attendance

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 issues such as 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. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

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. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. 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 need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

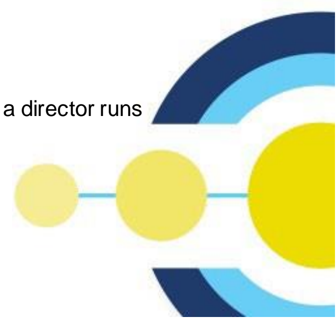
Engagement and dialogue with shareholders and wider stakeholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

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

[1] A plurality vote means that the w inning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.



for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

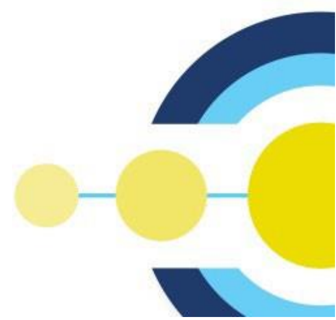
It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive 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 selection of these metrics should be based on a materiality assessment that also guides the company’s overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management’s control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

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. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **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. 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.

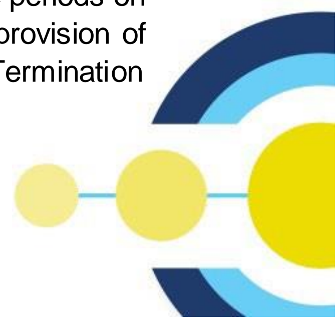
Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Executives' 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, taking into account local market standards. 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.

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.

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 be aligned with those of the majority of the workforce, 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 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. Any proposals concerning 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. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

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**

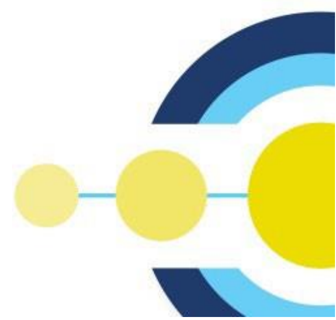
Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **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.

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

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.

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. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards 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.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Human rights

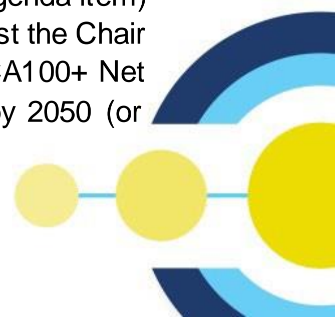
When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance, strategy and Paris alignment, command of the climate subject, board oversight and incentivisation, TCFD disclosures and scenario planning, scope 3 emissions and the supply chain, capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI) and the Climate Action 100+ (CA100+) Net Zero Benchmark. We will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower by the TPI. In addition, we will vote against the Chair for Oil and Gas companies scoring 3 or lower. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or



INTERNAL

sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, where a company materially fails the first four indicators of the framework.

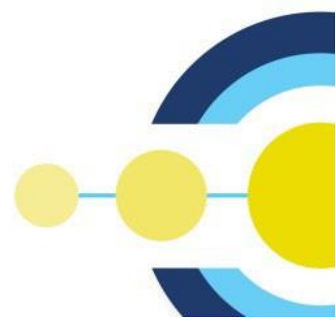
We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

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.



This page is intentionally left blank

Climate Change Policy

Border to Coast Pensions Partnership

8

Policy Owner: The Chief Investment Officer
Live from: January 2023

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

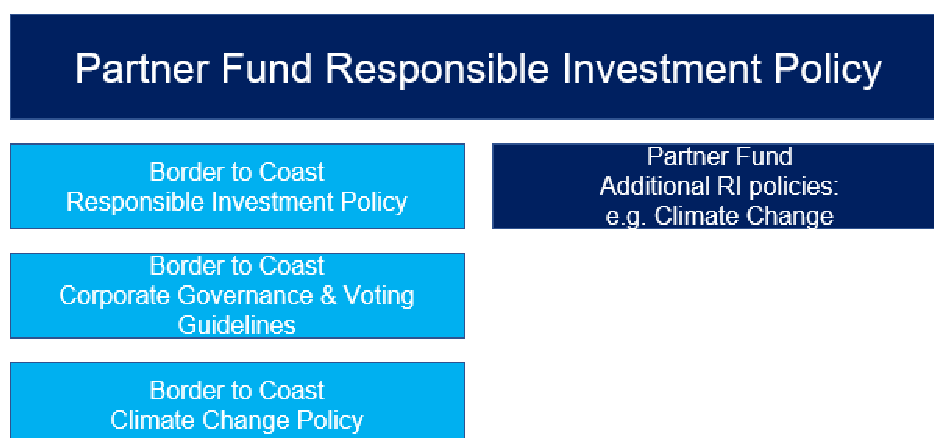
1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO2) from burning fossil fuels. Our planet has warmed by over 1°C relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. This changes the world in which we live, but also the world in which we invest.

Atmospheric CO2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO2 and other greenhouse gases (GHG) are not reduced to

mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, “Global warming of 1.5ºC”[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require “rapid and far-reaching” transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach ‘net zero’ around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

[1] https://www.ipcc.ch/sr15/

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension in the net zero transition and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce and the communities in which the companies' facilities are located. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Our climate change strategy is split into four pillars: **Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

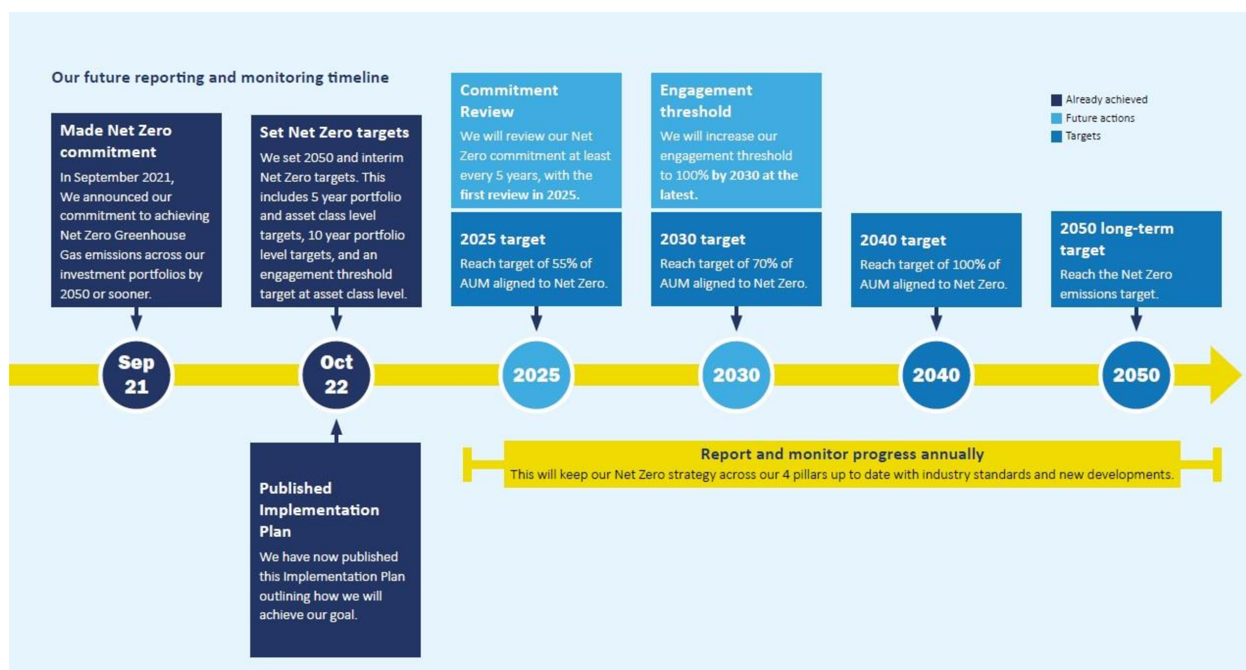
We consider climate change risks and opportunities within our investment decision making process.

We are committed to transparency regarding our climate change issues and activities.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

2.4 Roadmap

The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative (NZAM) pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050.We have developed an implementation plan which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. The Net Zero Implementation Plan can be found on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered

and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

8

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles

of the 'three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company's governance, risk and control framework.

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative (TPI)[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We continue to develop climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This is an iterative process, recognising that data, tools and methodologies are developing rapidly.

We understand that scenario analysis is useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve. During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies and fund managers will be a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

8

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover public market companies with 70% of revenue derived from thermal coal and oil sands and will therefore not invest in these companies. For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments. Any companies excluded will be monitored with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings, Climate Action 100+ (CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (SBTi) to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions.

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our

AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.

5.3 Working with External Managers

Assessing climate risk is an integral part of the External Manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We expect managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we encourage managers to make a firm wide net zero commitment. We will work with External Managers to implement specific decarbonisation parameters for their mandate. We will monitor our managers' carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We will also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this will act as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarbonisation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes adverse voting instructions on related AGM voting items, amongst other steps. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change (IIGCC), CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the TPI.

In particular, we are currently focusing on the following actions:

- When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI and CA 100+ Net Zero Company Benchmark. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use the IIGCC's Net Zero Stewardship Toolkit to develop our net zero stewardship strategy.
- Use carbon footprints the TPI toolkit, CA100+ Net Zero Company Benchmark and SBTi to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the IIGCC. We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

8

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This will include:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds. report in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment.
- We will disclose our voting activity and report on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.

- Disclose climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.

8

This page is intentionally left blank

Climate Change Policy

Border to Coast Pensions Partnership

8

Policy Owner: The Chief Investment Officer
Live from: January 2023

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

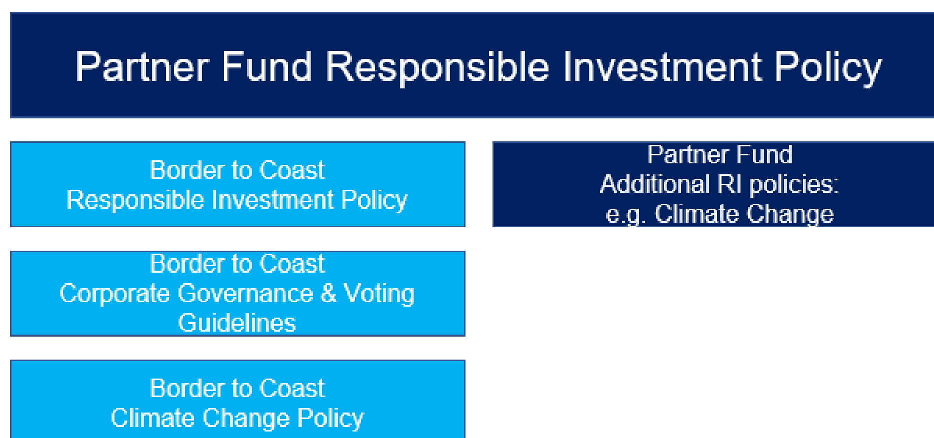
1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

8

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. This changes the world in which we live, but also the world in which we invest.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to

mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, "Global warming of 1.5ºC"[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach 'net zero' around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

[1] https://www.ipcc.ch/sr15/

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension in the net zero transition and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce and the communities in which the companies' facilities are located. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

8

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

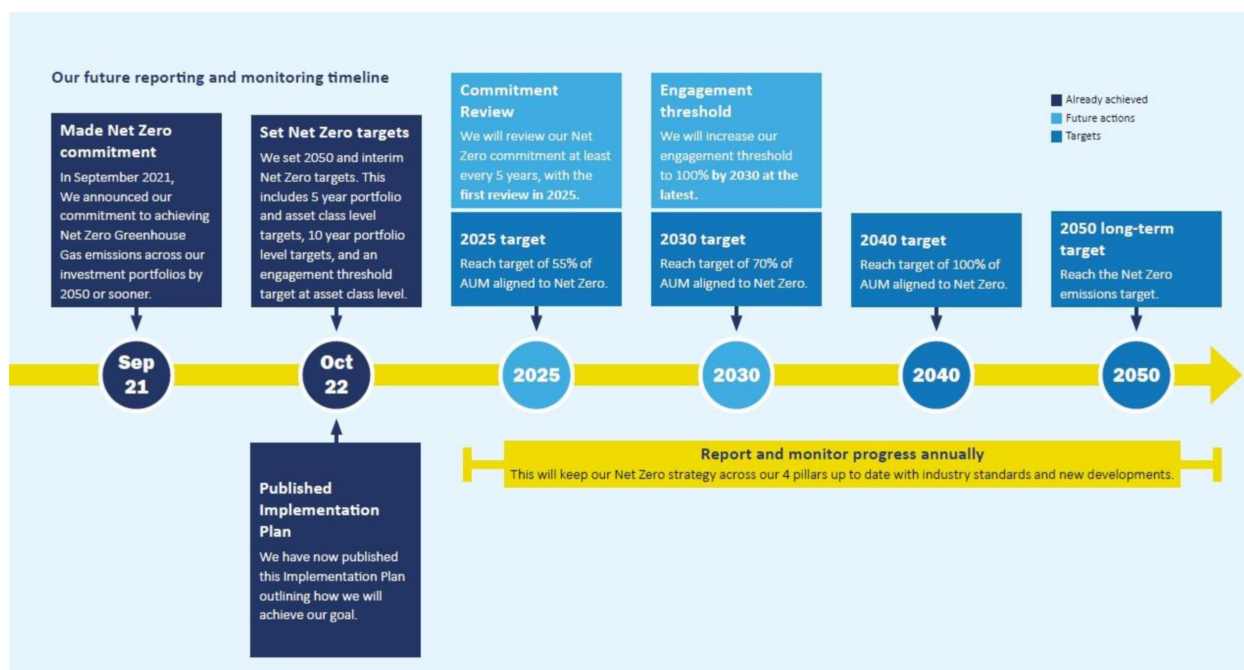
We consider climate change risks and opportunities within our investment decision making process.

We are committed to transparency regarding our climate change issues and activities.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

2.4 Roadmap

The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative (NZAM) pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050.We have developed an implementation plan which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. The Net Zero Implementation Plan can be found on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered

and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

8

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles

of the ‘three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company’s governance, risk and control framework.

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative (TPI)[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We continue to develop climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This is an iterative process, recognising that data, tools and methodologies are developing rapidly.

We understand that scenario analysis is useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve. During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

[2] The Transition Pathway Initiative (‘TPI’) is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies and fund managers will be a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover public market companies with 70% of revenue derived from thermal coal and oil sands and will therefore not invest in these companies. For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments. Any companies excluded will be monitored with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings, Climate Action 100+ (CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (SBTi) to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions.

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our

AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.

5.3 Working with External Managers

Assessing climate risk is an integral part of the External Manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We expect managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we encourage managers to make a firm wide net zero commitment. We will work with External Managers to implement specific decarbonisation parameters for their mandate. We will monitor our managers' carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We will also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this will act as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarbonisation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes adverse voting instructions on related AGM voting items, amongst other steps. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change (IIGCC), CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the TPI.

In particular, we are currently focusing on the following actions:

- When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI and CA 100+ Net Zero Company Benchmark. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use the IIGCC's Net Zero Stewardship Toolkit to develop our net zero stewardship strategy.
- Use carbon footprints the TPI toolkit, CA100+ Net Zero Company Benchmark and SBTi to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the IIGCC. We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

8

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This will include:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds. report in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment.
-

  We will disclose our voting activity and report on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.

- Disclose climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **ASSET CLASS FOCUS – PRIVATE MARKETS**

SUMMARY OF ISSUE:

As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes each quarter. This quarter the paper concentrates on private markets.

9

RECOMMENDATIONS:

It is recommended that:

The Committee note the Fund's private market holdings and commitments, respective funds' investment performance and review from the Fund's independent investment adviser.

REASON FOR RECOMMENDATIONS:

A solid framework of review is required to benefit from this long-term asset category. This is consistent with Fund's strategic investment objectives.

DETAILS:

Background

1. Private markets are investments made in assets not traded on a public exchange or stock market. This includes private equity, investments made in private companies, or private debt, where investors lend directly to borrowers when there is no market to trade that debt on. A sub-category of investments into infrastructure projects is also broken out.

2. Private markets have experienced rapid growth in recent years. PwC have estimated that assets under management in private markets will expand by between $4.2-5.5 trillion between 2021 and 2025, to reach between $13.7-15 trillion in total, to represent more than 10% of global assets under management. Asset owners invest in private markets for a variety of reasons, including targeting superior returns or looking for portfolio diversification. Private markets can offer exposures that are unavailable on listed markets and access to companies throughout their lifecycle. However, fees can be large and opaque and liquidity is significantly reduced.

3. The Fund's private markets exposure is derived through investments in Private Equity, Private Credit and Infrastructure. The latest commitment to the fund range offered by BCPP was £235m to the Climate Opportunities Fund, which is labelled as another sub-category within private markets.

4. The Fund's significant legacy managers are Darwin Alternative Investment Management, Goldman Sachs Asset Management, abrdn (Standard Life), Pantheon, Capital Dynamics and Glennmont.

5. The list of private market investments as at 31 March 2022, based on Fund Manager statements can be found in Annexe 2.

6. All the recent commitments have been made through BCPP. The total commitment to BCPP private markets as at 31 March 2022 was £650m. Since then, there have been further commitments to BCPP of £485m to private equity, credit, infrastructure and climate opportunities making a total sum of £1,135m without currency adjustment. The performance objective for private equity is 10%, for both infrastructure and climate opportunities 8%, and private credit 6%.

7. The target asset allocation of the Fund to private markets is 20%. As at 31 March 2022, the actual allocation was 10.5% (as of 30 September 2022 the actual allocation was 14.5%). The increase in weighting to private markets over the last six months is the result of committed capital being called and the fall in the value of other assets in the fund. Current commitments will move the allocation towards target. Future commitments will be necessary to offset future distributions.

8. Given the time lag between commitment and actual investment, an investment in the BCPP Listed Alternatives Fund was made in February 2022 to act as a proxy for private market exposure. As at 31 March 2022, this investment amounted to 7.6% of the Fund (as of 30 September 2022 the actual allocation was 7.1%). As capital is called and commitments are drawn down, this investment is used as a source of funds with the first redemption in November 2022. Short term funding of £40m was provided by UK Equity Alpha and LGIM Liquidity funds in August 2022.

9. Given the scale and timing of commitments, management of capital drawdowns is an increasingly significant focus regarding liquidity management.

10. The report by the Independent Advisor can be found in Annexe 1. This covers performance and positioning of the current private market investments.

CONSULTATION:

11. The Chair of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

12. Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. Financial and value for money implications are contained within the report.

DIRECTOR OF CORPORATE FINANCE & COMMERCIAL COMMENTARY

14. The Director of Corporate Finance & Commercial is satisfied that all material financial and business issues and possibility of risks have been considered,

and that private markets have been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

16. The review of the Fund's investment programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

17. There are no potential implications for council priorities and policy areas.

9

WHAT HAPPENS NEXT

18. The following next steps are planned:

    a. Cash flow analysis of upcoming capital calls and distributions to effectively manage cash

    b. Continued monitoring of private market holdings with a performance review report to be brought to the committee on an annual basis

---

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:

1. Summary report from the Fund's Independent Investment Advisor – Annexe 1
2. List of private market investments as at 31 March 2022 – Annexe 2

Sources/background papers:

This page is intentionally left blank

MJ HUDSON
Allenbridge

Surrey Pension Fund Committee

Private Markets Manager Review Meeting Minutes

November 2022

Attendees

Nick Harrison; Chair Pension Fund Committee (virtual)
Neil Mason; Assistant Director – LGPS Senior Officer
Lloyd Whitworth; Head Investment and Stewardship
Anthony Fletcher; Independent Adviser

Background

The purpose of this meeting was to receive an update from the selected Private Equity and Infrastructure Managers, Darwin Leisure and BCPP, on performance and activity over the last year for the Surrey Pension Fund.

9

To the extent these minutes contain the views of the adviser those views are intended as strategic advice to inform discussions around the strategic asset allocation. They are not intended as investment advice nor should they be relied on as such.

BCPP

Ian Sandiford; Head of Investment team (Alternatives)
Nick Livingstone; Portfolio Manager

Mandate summary

Surrey joined the BCPP private markets investment programme in April 2019, thus far Surrey have committed to Series 1 and 2. The total commitment to series 1 Private Equity was £150 million and £300 million to infrastructure, split equally over 3 tranches A, B and C. The commitment to private credit was slightly different, series 1A and 1B were combined with an instalment of £100 million a final instalment of £100 million to series 1C. The commitments have been phased in this way to ensure "vintage" diversification.

In April 2022 Surrey committed a further £485 million to the Series 2 investment round. Series 2A, consists of a further £50 million to Private Equity and £100 million each to Infrastructure and Private Credit. Surrey also committed £235 million to the series 2 Climate Opportunities Strategy.

9

The primary performance objective for Private Equity is 10% p.a. net of fees, the secondary PME benchmark is MSCI ACWI + 3%. BCPP will invest in a combination of strategies, characterised as Buyout, Special situations, Growth and Venture. The geographic split reflects the current market hence the largest weight is to the USA followed by Europe including the UK, Asia and the rest of the world.

The performance objective for Infrastructure is 8% p.a. net of fees. BCPP will invest in a combination of strategies, characterised as Core, Core + and Value-add / opportunistic. The geographic split also reflects the current market hence the largest weight is likely to be Europe including the UK followed by USA, Asia and the rest of the world.

The performance objective for Private Credit is 6% p.a. net of fees. BCPP will invest in a combination of strategies, predominantly Direct Lending, with smaller allocations to Real Assets, Mezzanine / Speciality and Opportunistic. The geographic split reflects the current market hence the largest weight is to the USA followed by Europe including the UK, Asia and the rest of the world.

The Climate Opportunities strategy is designed to exploit the opportunities provided by the transition to a lower carbon future. It will invest more broadly in operating assets, development assets and new technologies, including agriculture and forestry. Unlike the other strategies in the private markets series, this fund can invest in private equity, debt and infrastructure, and up to 10% in public listed investments. The regional exposure will most likely be dominated by North America and Europe including the UK, however between 0% and 30% could be invested in the rest of the world. The fund also has a longer commitment period of 3 years and its performance objective is 8% p.a. net.

Investments to date

Private Equity

BCPP has completed the commitment stage in its series 1 Private Equity General Partner (GP) selection process. The GP's have drawn 59% of series 1A capital and 40% and 18% of series 1B and 1C respectively, this is good progress over the last 12 months and slightly ahead of BCPP's projections.

As is the case with closed private market strategies, capital can be returned at any time on the realisation of investments or due to rebalancing on the receipt of new investor capital; to date 11% of series 1A deployed capital has already been returned to investors. Preliminary performance data to 30th June 2022, produced independently for BCPP for series 1A, suggests a preliminary IRR of over 40% (ranging between 5.4% and 68.4%) and a TVPI (Total Value to Paid In) of 1.6, (ranging between 1.1 and 2.7). It is far too early to draw any meaningful conclusions about series 1 performance at this stage because it is only 2 years since the start of the investment cycle.

Now that BCPP have completed the commitment stage, and appointed 24 different GP's, it is possible to

establish the likely sector and regional distribution of investments. At the sector level Buyout and Venture strategies are in the middle of the permitted range with Special Situations slightly below and Growth strategies slightly above the middle of the expected ranges. In terms of the expected regional distribution, BCPP found GP's offering more attractive opportunities in Europe and Asia than they did in the USA.

The Series 2A commitment phase began on 1st April 2022, at the end of September 48% of the committed capital had been allocated to 5 GP's, with another 2 in advanced due diligence, but at the time of writing none of this has been drawn. The only change in strategy between series 1 and 2 has been to reduce the maximum allocation to Buyout strategies from 80% to 70%. BCPP will be seeking new subscriptions to series 2B before mid-March 2023, the terms for series 2B are identical 2A.

Infrastructure

The series 1 Infrastructure commitment cycle to GP's has also been completed and GP's have increased drawdowns in the year to September. With 55% of series 1A, 33% and 45% of series 1B and 1C capital already drawn down respectively, this is well ahead of expectations.

Some of the Infrastructure strategies have also returned capital; to date 8% of series 1A and 5% of 1C, deployed capital has already been returned to investors. Preliminary performance data to 30th June 2022, produced independently for BCPP for series 1A, suggests an IRR of over 16% (ranging between -0.5% and >99%) and a TVPI of 1.2, (ranging between 1.0 and 2.0). It is far too early to draw any meaningful conclusions about series 1 performance at this stage at only 2 years since the start of the investment cycle.

BCPP have appointed 24 different GP's. At the sector level BCPP are around the middle of the expected range of deployment with slightly more Core+ and slightly less Core and Value Add strategies. In terms of the regional distribution, the GP's appointed are expecting to find more opportunities in the USA and fewer in Europe, Asia and the rest of the world relative to the mid-point of the expected regional range.

The Series 2A commitment phase also began on 1st April 2022, at the end of September 50% of the committed capital had been allocated to 4 GP's, but at the time of writing none of this has been drawn. The only change in strategy between series 1 and 2 is the regional allocation USA has been increased from 20-40% to 30-50% and Asia has been changed from 10-30% to 0-30%. BCPP will be seeking new subscriptions to series 2B before mid-March 2023, the terms for series 2B are identical 2A.

Private Credit

The series 1 Private Credit commitment cycle to GP's has also been completed and GP's have increased drawdowns in the year to September. With 51% of series 1A+B and 25% of series 1C capital already drawn down respectively, last year BCPP were slightly behind in terms of deployment but they have caught up and are now about 5% ahead of expectations.

Private Credit GP's have also returned about 5% of the capital from series 1 A+B. Very preliminary performance data to 30th June 2022, produced independently for BCPP for the whole series suggests an IRR of 20% and a probably more accurate TVPI of 1.1, (ranging between 1.1 and 1.2). It is far too early to draw any meaningful conclusions about series 1 performance as it so early in the investment cycle.

BCPP have appointed 12 different GP's. At the sector level the allocation is slightly ahead of the mid-range expected allocation for Direct lending and Mezzanine and slightly behind for Real assets and the Opportunistic debt categories. In terms of the regional distribution, the GP's appointed are finding more opportunities in the USA and Europe, fewer in Asia and at the moment none in the rest of the world relative to the mid-point of the expected regional range.

The Series 2A commitment phase also began on 1st April 2022, at the end of September 50% of the committed capital had been allocated to 2 GP's, but at the time of writing none of this has been drawn. Between series 1 and 2, the regional allocation to the USA has been increased from 30-70% to 40-80% and in Europe from 20-50% to 30-60%, Asia and the rest of the world are unchanged. BCPP have also changed the sector allocations 30-80% for Direct lending to 40-80% and Real assets from 0-50% to 20-50%. Subscriptions to series 2B need to be agreed before mid-March 2023, the terms for series 2B are identical 2A.

Climate Opportunities

Climate opportunities was not available in series 1 and came about due to Partner fund demand for investing in “Transition Alpha”. Partner funds wanted to be able to access not just operational renewable assets such as power generation but also the companies that were leading the development and rollout of new technologies that will be part of the transition of the “built economy” enabling a resilient and sustainable lower carbon future.

The commitment phase began on 1st April 2022, at the end of September 24% of the committed capital had been allocated to 3 GP’s, but at the time of writing none of this has been drawn. The regional allocation is expected to be 30-70% North America, 20-50% in Europe including the UK, 0-20% to Asia and 0-10% to the rest of the world. Sector allocations have been broadly set; 20-60% each for Operational and Developing Assets and a range of 10-30% in New Technologies. While this fund has a 3 year commitment period, compared to 2 years for the other private markets strategies, BCPP have suggested that deployment may be quicker due to a higher than expected supply of opportunities and even suggested they may be able to offer a second series sooner than expected.

9

Adviser view

It is too early at this stage to comment on the investment performance of any of the asset classes, but the longer running series 1A investments appear to have got off to a promising start given the economic conditions of the last two years. I am comfortable that BCPP has a robust process for GP selection and sufficient resources to help Surrey build and maintain an exposure to Private markets that is highly diversified by region, sector and vintage.

Part of the reason for pooling, was to give individual LGPS access to a wider range of asset classes, to improve the investment governance and due diligence band width and to save on fees. Thus far the decision to use BCPP for the investment of Surrey’s private market allocation appears to have achieved all of these objectives.

BCPP have estimated that they have achieved in aggregate, fee savings for Private Equity of 63bps or 32%, Infrastructure 34bps or 23%; Private Credit of 26bps or 22% and achieved estimated savings of 30ps or 18% for the climate opportunities fund. These fee savings are compared to the industry standard fee rates and not the fees that Surrey may have been able to negotiate on its own or as achieved in the past for some of it’s legacy investments. But the costs of BCPP completing GP discovery compare favourably with other methods of GP discovery, such as using an Adviser to do the search on behalf of Surrey or using a GP with Fund of Funds approach.

Pantheon Global Infrastructure Fund III

Andy Bush; Principal, Relationship Manager, Investor Relations Team
Jerome Duthu-Bengtzon; Partner, Infrastructure Team
Welwin Lobo; Principal, Infrastructure Team
Tom King, Analyst, Investor Relations Team

Mandate summary

Surrey appointed Pantheon in 2018 to invest in an Infrastructure "fund of funds"; Pantheon Global Infrastructure Fund III (PGIF III). The committed capital was US$ 60 Million. Pantheon will use a combination of secondary and co-investments as well as direct primary equity investments, to achieve full investment of the committed capital.

9

Investments to date

As of 30th June 2022, of the US$ 60 million committed to Pantheon by Surrey, US$ 44.3 million or 74% has been committed to investments. The NAV of Surrey's investments is US$ 47.6 million, and a further US$ 8.7 million has been returned to Surrey via distributions on the disposal of assets. This means that on the invested capital the fund has delivered a net IRR of 11.9% or 1.27 times, multiple on invested capital (MOIC).

The fund is very well diversified owning 17 secondary investment funds and 20 co-investment funds, with a total of 199 different investee companies. By sector the largest allocation is digital infrastructure at 31%; 18% of which is invested in Fibre optic networks. Transportation 23%, which is evenly distributed between roads, ports, logistics and 3 airports, that represent around 7% of the NAV namely, London Luton, Gatwick and Melbourne, Australia. 19% is invested in renewable energy split between solar and wind, with the largest allocation (11%) in energy efficiency. In terms of geography 50% is invested in Europe, 38% in USA and 11% in Asia Pacific and the rest of the world. In terms of the type of fund, 56% is invested in secondary funds, 42% in co-investments and 2% is currently invested in primary deals.

Pantheon confidently expects to deploy over 90% of committed capital in the investment period. Indeed, Pantheon have drawn a further US$ 11 million over the last year of which US$ 6.6 million could have been funded from distributions. Over the next 12 months to the end of the investment period, Pantheon expected to draw a further US$ 9.1 million and distribute US$ 7.5 million. By the end of 2023, a little later than earlier forecast the fund will become a net distributor of cash with the majority of the capital returned over the following 4 years.

Adviser view

The fund's investment strategy remains on track to deliver a portfolio of "core and core plus" investments with good diversification by sector. Distributions of US$ 6.6 million in the last year an interim net IRR of 11.9% and an average net multiple of 1.27x as of 30th June 2022 are all reasonable and in line with expectations for this fund, and it is still in its investment period.

Despite my concerns around the launch of PGIF IV, Pantheon have not been distracted from continuing to deploy committed capital in PFIF III.

When quizzed about fees, Pantheon reminded us that Surrey pays an LGPS aggregate fee of 70bps, plus for secondaries manager fees are between 50 and 90bps, which they said was only about 2/3 the fee charged for primary deals and no manager fees are payable on 95% of the co-investments. But there are performance fees on top of these management charges. However, it does suggest that Surrey may need to do a more in depth analysis to see if on an "all in" basis BCPP's claims to be a lower cost provider can be proven.

Glennmont Clean Energy Fund

Mandate summary

Glennmont Partners Fund III (GPF III) is a single strategy fund that invests directly in renewable infrastructure in Europe, the total fund size is Euro 850 million. Deployment of capital is expected to be 60% to 80% offshore and onshore wind, 15% to 25% solar with the balance in biomass electricity generation. Geographic distribution is targeted to be 20% each in UK and France, and 25% each in Germany and Italy, with the balance in other EU countries. Surrey have committed capital of Euro 45 million to this fund.

Investments to date

In December 2021 the fund reached full commitment to investment projects. The fund is well diversified by stage of development, geography and technology. The stage of development split is; operational assets 35%, assets under construction 56% and under development 6%. All projects are in the Euro-Area, by country Finland 17%, Germany 21%, Italy 17%, Portugal 7% and Spain 37%. This is a marked improvement from the much more Finnish and German geographic concentration reported last year, although Spain remains rather high. The mix of technologies has also improved with solar now the dominate source of production at 43%, onshore wind 34%, offshore wind 21%, and other 2%.

9

Adviser view

The management team have done a good job of identifying both good operational assets where they can use their asset management skills to create clusters of assets with a critical mass, and where this can't be achieved to divest assets at reasonable exit values. In terms of their construction and development assets, they have also identified good projects and have secured high quality clients to purchase the energy produced on guaranteed and inflation linked terms over the long term. The distribution of assets by geography and technology does not match the expected deployment at the outset, but it is probably better that Glennmont have focussed on the projects that can deliver the expected returns.

When quizzed about fees, Glennmont reminded us that Surrey negotiated an attractive level of management fees, but they were not able to provide details at the time. I have raised concerns about the overall level of fees accumulated by the GP and shown in it's report and accounts. Glennmont promised to report back with full details of the fees and charges that Surrey are paying and it is possible that these may be more favourable than the GP's accounts suggest.

Darwin Investments

Mandate summary

Surrey has three similar investments with Darwin. The Darwin Leisure Property Fund (DLPF) which dates back to 2013, initially Surrey invested £20 million in the “D accumulation” units. The second investment with Darwin is in the Darwin Leisure Development Fund (DLDF). Surrey invested £40 million in this fund and it is now fully drawn down and invested. The third investment was in 2021 where Surrey invested a further £25 million in the DLPF “K accumulation” units.

DLPF buys and operates leisure parks in the UK with a mixture of Camping, Touring caravan and Static holiday caravans / lodges. In this fund the approach has been to use the operational cash flow of the individual leisure parks to upgrade the leisure proposition to the holiday park and campsite sector. By offering better quality and more diverse leisure facilities that will attract an all year round usage, thereby increasing occupancy rates and annual turnover. The long term target return of DLPF is 6% to 8% p.a.

9

DLDF has a similar business model but this fund is focusing on locations that may or may not already have a “holiday park” offering. The locations need to have potential for re-development from their current use. The fund can use a modest level gearing to finance acquisition and re-development costs. The long term target return of DLPF is 10% to 14% p.a.

Performance update

Darwin Leisure Property Fund

In the 12 months to 30th September 2022 the return of the D accumulation units was 3.3% the same return as in the year to September 2021, over 5 years the fund has achieved 5.07% p.a. Surrey invested £20 million in 2013, the current NAV suggests an estimated value of £39,087,167.

On the 1st June 2021, Surrey invested a further £25 million in the K accumulation share class. At the end of September 2022, the NAV suggests an estimated value of £26,437,500. It is far too early to comment on the performance of this share class.

Darwin Leisure Development Fund

In the 12 months to 30th September 2022 the return of the B class accumulation units was 7.95%, which compares with 4.6% in the year to 30th September 2021. The total return over 5 years was 7.5% p.a. The estimated value of Surrey’s original investment of £40 million is £58.8 million.

Despite the upbeat commentary from Darwin, it is clear from the performance numbers that both funds have had a difficult period post covid. While bookings and occupancy rates are higher, increased costs due to generalised factors such as higher inflation and the difficulty recruiting and retaining staff have had an impact on returns in both funds.

Brexit and the perception of increased difficulty in travelling and the reduction in how long UK citizens can stay in the Euro-zone holiday destinations has increased interest in purchases of Lodges. This has also supported increased advance bookings for holiday accommodation in the UK, enabling operators to increase prices. These positive factors are expected by Darwin to go some way to offsetting the head winds of increased costs that are impacting profitability at least in the short term.

Adviser view

Over the medium to long term both funds have been an investment success in a niche area, with genuinely idiosyncratic sources of risk and return, but it looks as though returns maybe lower than hoped for by Darwin. Darwin has demonstrated skill in buying sites in good locations and then strong skills in asset management to evolve sites to a higher level of quality, occupancy and revenue by genuine innovation. They have also embraced the challenges of transition to a lower carbon future and are activity seeking to increase the positive contribution their businesses can make in the local economy where they operate.

Darwin was a little sketchy about total fees including any performance fees, but Surrey was able to negotiate quite low management charges. The AMC for DLDF B shares is 0.5% p.a.; DLPF D shares 0.8% p.a. and only 0.02% for DLPF K shares.

As with all private market funds there is an outperformance fee on top of the AMC, which is only paid above a certain hurdle rate of return. Darwin reminded us that their hurdle rate was 6% and that their share above it was 15% of the rate of return above 6%. For example, if they deliver 1% above 6% their share would be an additional 0.15%.

Because performance fees depend upon the level of outperformance and they are usually paid on exit, it is not always possible to know the total fees earned by the GP during the life of the fund, but an indication can be found in the report and accounts of the GP. Which is why negotiating hard with GP's at the outset on the AMC, the hurdle rate and the level of participation is so important. It is important that management teams are appropriately incentivised, but their level of remuneration must also be aligned with the total returns realised by the investor.

9

Anthony Fletcher – Independent Adviser to the Surrey Pension Fund

This document is directed only at the person(s) identified on the front cover of this document and is governed by the associated agreements we have with that person. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it.

This document is issued by MJ Hudson Allenbridge a trading name MJ Hudson Investment Advisers Limited, an appointed representative of MJ Hudson Advisers Limited which is Authorised and Regulated by the Financial Conduct Authority. The Registered Office of MJ Hudson Advisers Limited is 1 Frederick's Place, London, United Kingdom, EC2R 8AE.

1 Frederick's Place, London, United Kingdom, EC2R 8AE | +44 20 7079 1000 | london@mjhudson.com | mjhudson-allenbridge.com

This page is intentionally left blank

Manager	Investment	Vintage Year	Paid in Capital	Outstanding Commitment	Total Commitment	Distributions Received	Fair Value of Remaining Investments	Total Value Distributions + Fair Value	Total Value versus Paid In Capital	Net IRR
	As at 31 March 2022		000s	000s	000s	000s	000s	000s		
			£	£	£	£	£	£		
HG Capital	HG 5	2006	7,856	0	7,856	11,201	4	11,205	1.43	N/A
HG Capital	HG 6	2009	9,373	0	9,373	15,106	126	15,232	1.63	N/A
HG Capital	HG7	2013	12,677	0	12,677	25,618	5,097	30,715	2.42	22.00%
Capital Dynamics	LGPS Collective Private Equity Vehicle 2016/2017	2016	6,200	1,800	8,000	2,240	7,574	9,814	1.58	16.60%
Capital Dynamics	LGPS Collective Private Equity Vehicle 2017/2018	2017	5,980	2,020	8,000	444	9,131	9,575	1.60	21.10%
Capital Dynamics	LGPS Collective Private Equity Vehicle 2018/2019	2018	4,080	3,920	8,000	43	5,569	5,612	1.38	25.30%
Living Bridge	LIVING BRIDGE 4 LP (LP2)	2013	11,654	1,400	15,000	22,131	88	22,219	1.91	18%
Living Bridge	LIVINGBRIDGE ENTERPRISE 1 LP (LP5)	2013	7,619	2,381	10,000	10,452	259	10,711	1.41	10%
Darwin Property Mgt	Darwin Property Fund	2013	40,000	0	40,000	0	56,176	56,176	1.40	N/A
Darwin Property Mgt	Darwin Property Fund	2017	20,000	0	20,000	0	38,335	38,335	1.92	N/A
Darwin Property Mgt	Darwin Property Fund	2021	25,000	0	25,000	0	25,825	25,825	1.03	N/A
Border to Coast	Border to Coast Surrey LP (Infrastructure 1a)	2019	38,960	56,363	95,323	1,128	44,868	45,996	1.18	11.30%
Border to Coast	Border to Coast Surrey LP (Infrastructure 1b)	2020	23,795	74,386	98,181	356	24,485	24,841	1.04	5.60%
Border to Coast	Border to Coast Surrey LP (Infrastructure 1c)	2021	42,921	64,739	107,660	192	44,626	44,818	1.04	9.40%
Border to Coast	Border to Coast Surrey LP (Private Credit 1a/b)	2020	37,327	63,275	100,602	1,251	40,672	41,923	1.12	15.60%
Border to Coast	Border to Coast Surrey LP (Private Credit 1c)	2021	10,878	90,907	101,785	0	11,312	11,312	1.04	6.90%
Border to Coast	Border to Coast Surrey LP (Private Equity 1a)	2019	20,391	28,323	48,714	2,967	33,315	36,282	1.78	41.90%
Border to Coast	Border to Coast Surrey LP (Private Equity 1b)	2020	15,939	34,366	50,305	316	17,791	18,107	1.14	31.70%
Border to Coast	Border to Coast Surrey LP (Private Equity 1c)	2021	6,952	44,924	51,876	0	7,146	7,146	1.03	13.40%
			€	€	€	€	€	€		
SL Capital	ESP 2006	2006	13,894	1,106	15,000	19,012	996	20,008	1.44	5.90%
SL Capital	ESP 2008	2008	14,431	569	15,000	19,996	2,659	22,655	1.57	9.30%
SL Capital	ESP II	2004	9,323	677	10,000	15,346	41	15,387	1.65	12.40%
SL Capital	ESF I	2011	15,028	2,472	17,500	12,941	9,547	22,488	1.50	8.40%
Glennmont Partners	Glennmont Clean Energy Fund Europe III SCSp	2018	27,030	17,970	45,000	3,574	30,363	33,937	1.11	6.20%
			$	$	$	$	$	$		
BlackRock	Vesey Street II	2003	4,675	325	5,000	8,431	0	8,431	1.80	10.25%
BlackRock	Vesey Street III	2005	15,400	2,100	17,500	20,825	575	21,400	1.39	4.48%
Goldman Sachs	GS PEP 2004 LP	2004	9,799	201	10,000	15,565	188	15,753	1.61	N/A
Goldman Sachs	GS PEP XI LP	2011	29,616	10,384	40,000	47,405	31,920	79,325	2.68	N/A
Goldman Sachs	GS Vintage VI	2013	13,737	6,263	20,000	18,894	5,085	23,979	1.75	N/A
Goldman Sachs	GS Vintage VII	2016	19,996	26,782	46,778	20,540	41,452	61,992	3.10	N/A
Goldman Sachs	WS EUROPEAN INFRASTRUCTURE LP	2017	18,034	1,966	20,000	1,767	22,278	24,045	1.33	N/A
Pantheon	Pantheon Global Infrastructure Fund III	2017	42,504	17,496	60,000	8,130	45,800	53,930	1.27	12.50%
Capital Dynamics	Clean Energy And Infrastructure Feeder	2013	24,319	481	24,800	3,072	14,014	17,016	0.70	-4.60%
SL Capital	SOF I Feeder	2014	17,106	2,894	20,000	22,760	4,270	27,030	1.58	11.20%
SL Capital	SOF II Feeder	2014	11,211	8,789	20,000	26,114	166	26,280	1.32	13.60%
SL Capital	SOF III Feeder	2017	29,923	15,077	45,000	25,123	45,615	70,738	1.67	26.70%
TOTAL (GBP)			**594,479**	**558,554**	**1,154,979**	**319,421**	**569,889**	**889,257**		

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **COMPANY ENGAGEMENT & VOTING**

SUMMARY OF ISSUE:

This report is a summary of various Environmental Social & Governance (ESG) issues that the Surrey Pension Fund (the Fund), Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) have been involved in, for the attention of the Pension Fund Committee (PFC). The Fund is a member of LAPFF so enhances its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco has been appointed to provide voting and engagement services to BCPP, so acts in accordance with BCPP's Responsible Investment (RI) Policy, which is reviewed and approved every year by all 11 partner funds within the Pool.

RECOMMENDATIONS:

It is recommended that the PFC:

1) Reaffirms that the Fund believes that the United Nations Sustainable Development Goals (UN SDGs) represent an appropriate foundation in terms of the Fund's overall RI approach

2) Reaffirms that ESG Factors are fundamental to the Fund's approach, consistent with the Mission Statement through:

   a) Continuing to enhance its own Responsible Investment (RI) approach, its company engagement policy, and SDG alignment.

   b) Acknowledging the outcomes achieved for quarter ended 30 September 2022 by Robeco in their Active Ownership approach and the LAPFF in its engagement with multinational companies.

   c) Note the voting by the Fund in the quarter ended 30 September 2022.

REASONS FOR RECOMMENDATIONS

In accordance with the Fund's Mission Statement, as well as its Investment Strategic Objectives, the Fund is required to fulfil its fiduciary duty to protect the value of the Fund, with a purpose to meet its pension obligations. Part of this involves consideration of its wider responsibilities in RI as well as how it exercises its influence through engaging as active shareholders.

DETAILS:

Background

1. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this particular field.

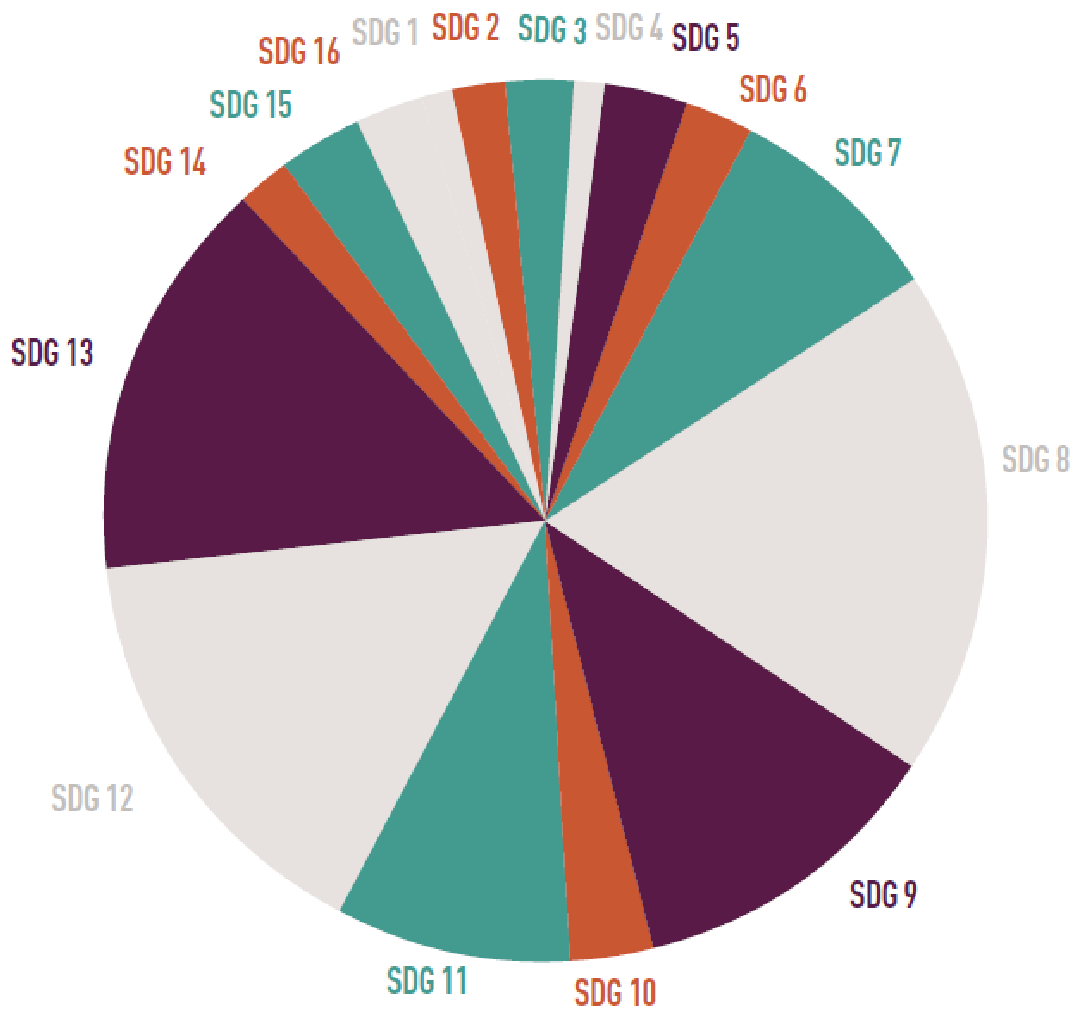
2. The Fund has commissioned Minerva Analytics (formerly Manifest) since 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Minerva Analytics has assisted in ensuring the Fund's stewardship policy reflects the most up-to-date standards and that officers learn of the latest developments and can reflect these developments in the Investment Strategy Statement (ISS). Minerva operates a customised voting policy template on behalf of the Fund and provides bespoke voting guidance in accordance with the Fund's policies.

3. BCPP appointed Robeco as its Voting & Engagement provider to implement a set of detailed voting guidelines and ensure votes are executed in accordance with BCPP's Corporate Governance & Voting Guidelines. A proxy voting platform is used with proxy voting recommendations produced for all meetings, managed by Robeco as the Voting & Engagement provider.

4. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) Funds and UK Pension Pools, including BCPP. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

LAPFF Engagement

5. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). The LAPFF Quarterly Engagement Report is included in Annexe 1 which also details progress on all engagements. Some of the engagements from Q1 are summarised below.



10

LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	5
SDG 6: Clean Water and Sanitation	4
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	30
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	14
SDG12: Responsible Production and Consumption	25
SDG 13: Climate Action	24
SDG 14: Life Below Water	3
SDG 15: Life on Land	5
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

6. A key focus for the LAPFF this quarter was human rights within the mining sector and in particular, the disastrous tailings dam collapses in Brazil. The LAPFF Chair visited the sites, met with the local communities affected and had discussions with the management of the associated companies. The local communities raised concerns over the provision of new housing, water quality and air quality. LAPFF was pleased to see the investments made by Vale to try to prevent further dam collapses and continues to work collaboratively with other investors to increase the pace and quality of reparations. The complex and inadequate governance structure of the company set up to manage reparations has been a drawback and will be raised in future.

7. LAPFF issued a voting alert recommending a vote against National Grid's transition plan raising concerns over stranded assets, future Scope3 targets and alignment to 1.5 degrees C. Following a meeting with management and the AGM, more detail was gained on 1.5 degree C alignment and the challenge for the US gas business. The company has committed to an assessment against the Science-Based Target initiative (SBTi) certification benchmark. Ongoing coordinated engagement through Climate Action 100+ seeks to identify and unlock potential policy barriers to the delivery of decarbonisation of the power utility sectors.

10

8. Changing from previously negative reviews of SSE's net zero transition plan, LAPFF recommended voting in favour at the company's 2022 AGM. SSE has made notable progress in its ambition to reach net zero, adding more Science-Based Targets with alignment to 1.5 degrees C.

9. More information was sought on the transition pathway and strategy to achieve low carbon intensity targets at Mizuho Bank. Further detail was provided on targets based on the International Energy Agency (IEA) Scenarios. Mizuho has an engagement policy to support clients' capabilities for dealing with transition risks. LAPFF continues to engage collaboratively with a range of Asia-based utility and financial companies, including Mizuho.

10. LAPFF is engaging with electric vehicle manufacturers regarding responsible mineral sourcing and a 'fair and just transition'. LAPFF met with Ford and has followed up with a range of questions. There will also be calls with Renault and Volvo.

11. LAFPP has continued to investigate issues of Uyghur forced labour in China. LAPFF joined the Investor Alliance for Human Rights Uyghur Region Engagement Group and met the Australian Strategic Policy Institute. It would seem that companies are unable to undertake the thorough levels of due diligence they claim to do. LAPFF is currently looking at ways to progress dialogue with companies already engaged on this issue and how to get non-responders to engage in a meaningful manner.

12. LAPFF has maintained an interest in ShareActions' Good Work Coalition, which looks at the living wage and insecure work, amongst other issues. LAPFF continues to monitor work on the Real Living Wage.

13. LAPFF continues to support the Rathbones' Votes Against Slavery engagement. The engagement has had a strong success rate in improving reporting standards within the UK's FTSE 350.

14. LAPFF acts as co-lead for engagement with Kellogg regarding the Nutrition

Index, having a second meeting in August. At the meeting, the company's approach to governance, lobbying, labelling, and responsible marketing was discussed. There appears to be progress across all the topics covered. Dialogue with Kellogg will continue.

15. The 30% Club Investor Group has started a global engagement looking at laggards on gender board diversity in the USA. Letters have been sent to Charter Communications, Liberty Media and Transdigm Group, with limited response so far.

Robeco Engagement

16. In the quarter ended 30 September 2022, Robeco voted at 134 shareholder meetings, voting against at least one agenda item in 56% of cases. The Robeco report is included in Annexe 2 which also highlights all companies under engagement. Some of the engagements from the quarter are included below**.**

17. Robeco are launching two new engagement themes covering Diversity and Inclusion, D&I, and Natural Resource Management. These two themes aim to support companies in facing some of their core negative impacts around their human and natural resource management and push for more transparency as required by the Principle Adverse Impact Indicators defined in the EU Sustainable Finance Disclosure Regulation. They are expected to run continuously rather than the usual three years.

10

18. Diversity and Inclusion - There are 5 engagement objectives.

    1. Develop a D&I policy
    2. Definition of D&I implementation strategies and measures of success
    3. Encouragement of data disclosure
    4. Overall pay equality
    5. Strategic approach to shaping attitudes and behaviours in the workplace

19. Natural Resource Management

    The engagement theme aims to address the impacts of corporate operations related to their intensive water use and generation of waste. In the water engagements, the focus is on companies operating in high water-stress areas as well as those deemed to have high water consumption. In the waste engagements, the focus is on companies that generate hazardous waste and threaten to pollute the environment, including companies exploring seabed mining and tailings. In July 2022, they started engaging with the first group of 6 companies from 3 sectors, Chemicals, Oil & Gas and Paper & Pulp.

20. Climate Transition of Financial Institutions

    The 3-year engagement programme on the climate transition of financials has reached its mid-point. To maximise the effectiveness of the engagement strategy, they collaborate with the Institutional Investor Group on Climate Change, IIGCC, which coordinates a larger investor initiative on banks'

climate strategies. Ten banks were chosen given their significant exposure to carbon-intensive assets and indicators were grouped into 6 areas to provide a comprehensive picture of the banks' net zero transition plans, shown below.

- Net zero commitments
- Short and medium-term targets
- Decarbonisation strategies
- Climate governance
- Climate policy engagement
- Audit and accounts

Based on the first round of assessments in early 2022, average alignment with credible net zero trajectories amongst banks is relatively low.

Future steps

Several areas for banks to improve their climate strategy were highlighted, primarily through enhanced disclosures and financed emission reduction targets. More transparency on how banks engage with clients is also expected in the coming years, supported by shareholder proposals filed at numerous banks during the 2022 proxy voting season. Banks were asked to define their commitment to being net zero by 2050 and include a timeline by which they would stop all lending to new fossil fuel supplies.

10

Overall, Robeco feel that governance around climate-related financing has been one of their engagement objectives that has seen the most progress. However, they feel the objectives around risk management and strategy have seen the least progress. They will push for improvements in sector decarbonisation strategies and scenario analyses in their upcoming meetings.

21. **Responsible Executive Remuneration**

In 2020, an engagement project was initiated to make use of the new opportunities that the EU's amended shareholder rights directive, (SDR 2), afforded. For a set of European and US companies they have focused their engagement on four areas.

- To better align pay with performance
- To promote equity holding requirements
- To use ratios and benchmarks in order to avoid excessive pay discrepancies between and within organisations
- To have strong and independent oversight from the supervisory board and feedback mechanisms towards its shareholders

SRD 2 has had an impact, remuneration practices have been voted down, ESG metrics are being incorporated and reporting is being aligned to the directive. However, significant further progress is needed in all of the above areas, especially regarding the pay response over the pandemic, using the ESG metrics as a remuneration cushion and the structures of equity-linked remuneration.

Surrey Share Voting

22. The full voting report produced by Minerva is included in Annexe 3.

    There was only one AGM to vote at this quarter, with 7 resolutions. The Fund voted against two management proposed director candidates due to independence concerns and against the reappointment of an external auditor on concerns regarding tenure and the lack of disclosure.

    BCPP Responsible Investment

23. Annexes 4 & 5 provide a high-level overview of ESG performance for UK Equity Alpha and Global Equity Alpha using a variety of measurements. The reports highlight specific examples which provide insight into how ESG integration works in practice.

CONSULTATION:

24. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

10

25. There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

26. There are no financial and value for money implications.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

27. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

28. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

29. The Company Engagement Review does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

30. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

31. The Pension Fund will continue to monitor the progress of the voting and engagement work carried out by the LAPFF and Robeco over the medium and long term, and how this can impact investment decisions.

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:

1. Engagement & Voting – LAPFF Quarterly Engagement Report Q3 2022
2. Engagement & Voting – Robeco Active Ownership Report Q3 2022
3. Engagement & Voting – Surrey Voting Report (Minerva) Q3 2022
4. Engagement & Voting – BCPP ESG Global Equity Alpha Q3 2022
5. Engagement & Voting – BCPP ESG UK Equity Alpha Q3 2022

10

Quarterly Engagement Report

July-September 2022

Brazil, Water Stewardship, Ford, National Grid, Uyghurs

Local Authority Pension Fund Forum

BRAZIL

The collapsed tailings dam at Brumadino and the excavations taking place to find the four remaining bodies

LAPFF Chair Visits Tailings Dam-Affected Communities in Brazil

LAPFF Chair, Cllr Doug McMurdo spent three weeks in Brazil this quarter investigating the situation of communities affected by tailings dams in Conceição do Mato Dentro, Mariana, and Brumadinho. This trip was part of LAPFF's broader work on mining and human rights. The context for the trip is available in the mining and human rights report LAPFF published in April 2022. The motivation for the trip reflects LAPFF's view that social and environmental impacts by investee companies are financially material for investors.

During his trip, Cllr McMurdo met with communities affected by the 2015 Mariana and 2019 Brumadinho dam collapses. BHP and Vale own the Mariana Fundão dam through their joint venture operator, Samarco. Vale owns the Córrego do Feijão dam that collapsed in Brumadinho. He also visited communities in Conceição do Mato Dentro who live in areas affected by Anglo American's Minas Rio tailings

BRAZIL

dam. Water quality and availability and house design in resettlements are two major concerns cited by affected community members with whom LAPFF spoke. Air quality due to dust from mines was another concern expressed by communities in all three areas.

After meeting with affected community members, Cllr McMurdo spent two days with the Chair of Vale, José Penido, and senior executives from the company. Mr Penido accompanied Cllr McMurdo to the Paracatu and Bento Rodrigues resettlements in Mariana, sites hit hard by the Samarco tailings dam collapse in 2015. Andre de Freitas, CEO of the Renova Foundation which was established to provide reparations following the Mariana tailings dam collapse in November 2015, led the visits to the resettlements. Mr Penido also accompanied Cllr McMurdo to the site of the 2019 Brumadinho tailings dam collapse. Mr Penido and his colleagues explained in Vale's geomonitoring centre what steps the company has been taking to prevent further dam collapses. LAPFF extended an invitation to meet a BHP representative during Cllr McMurdo's trip, but the invitation was declined by the company.

"It is clear that Vale has taken steps to improve its corporate culture and its dam safety practices. LAPFF's objective is to be a critical friend to the company in fostering better and faster delivery of required reparations and dam safety measures."

Cllr Doug McMurdo, LAPFF Chair

At the end of the trip, Cllr McMurdo met with a number of Brazilian investors led by ESG-focused asset manager, JGP Asset Management, with whom LAPFF has been partnering on this project for a couple of years. Collectively, the investor group worked with senior executives of Vale to set in motion a process to increase the pace and quality of reparations following the tailings dam collapses.

The largest impediment to completing reparations in Mariana quickly enough and to an adequate standard appears to be the Renova Foundation. Vale, BHP, and Samarco – but no affected community members – sit on the board of this organisation which was established to provide reparations following the Mariana tailings dam collapse in November 2015. The Foundation has an overly complex governance structure, similar in some ways to that of a joint venture, and does not have adequate independence in its governance. Both shortcomings have led to poor and drawn-out execution of reparations.

COMPANY ENGAGEMENT

10

National Grid

In July, LAPFF issued a voting alert recommending a vote against National Grid's transition plan. It flagged concerns that despite draft climate action plans from Massachusetts and New York state agencies proposing nearly 10 million households change their heating systems to electric heat pumps by 2050, National Grid still envisaged 50 percent of households in these states having some form of gas burning system by 2050.

Objective: A meeting was held with Duncan Burt, the Head of Sustainability, and Justine Campbell, the Company secretary, prior to the AGM to discuss these concerns. This was followed by attendance at the company AGM to ask about Scope 3 targets being aligned with the remaining global carbon budget, on processes to ensure lobbying was aligned with the goals of the Paris agreement, and on disclosing progress against the CA100+ benchmark.

Achieved: At the meeting, National Grid representatives provided more detail on 1.5°C alignment and the challenge for the gas business in the US. At the AGM, LAPFF representing the lead investors for the CA100+ group, noted the importance of government, regulators and companies working constructively together to deliver the energy transition, and commended National Grid for the adoption of real zero as a goal. The chair, Paula Reynolds, and the Chief Executive, John Pettigrew, both responded positively, with further information being provided on Science-Based Target initiative (SBTi) certification in the UK and committing to an assessment against the benchmark. The full AGM transcript is provided on the company website.

In Progress: As part of engagement coordinated through Climate Action 100+ correspondence has been sent to the company to identify and unlock potential policy barriers to the delivery of decarbonisation of the power & utilities sector. An initial response suggests a focus on legislative challenges, measures to accelerate net zero infrastructure, actions around affordability, and a fair and just transition.

SSE Plc

LAPFF issued a voting alert ahead of the SSE AGM. LAPFF previously advised members to abstain on whether to improve the company's net zero transition report in 2021 due to concerns about important omissions related to Scope 3 emissions, capital allocation and alignment with Paris Agreement targets. This year a recommendation was issued to vote in favour at the company's 2022 AGM. SSE has made notable progress in its ambition to reach net zero emissions across its business between AGMs, adding more Science Based Targets with alignment to 1.5°C.

Mizuho

Objective: Following a collaborative meeting in July that confirmed medium-term targets had been established for carbon intensity of the electric power sector, more information was sought on the transitional pathway and strategy Mizuho has developed to achieve these targets.

Achieved: Further detail was provided on targets, based on the lower end of the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario, and the upper end of the IEA's Sustainable Development Scenario. Mizuho has an engagement policy to support clients' capabilities for dealing with transition risks, whereby a review is triggered if the client shows no willingness or strategy to address transition risks after one year of engagement.

In Progress: LAPFF continues to engage collaboratively with a range of Asia-based utilities and financial companies, including ongoing dialogue with Mizuho.

Electric Vehicle Manufacturers

Objective: After beginning to engage with electric vehicle manufacturers earlier in the year to discuss approaches to responsible mineral sourcing and a 'Fair and Just Transition', LAPFF has continued to reach out to companies to discuss this issue.

Achieved: LAPFF met with Ford to discuss its approach to human rights and responsible mineral sourcing. The meeting was a short one, although the company's participation in the Initiative for Responsible Mining Assurance was discussed.

In Progress: The meeting with Ford was followed up with a range of questions, which the company has promised to answer. The Forum is also coordinating calls with Renault and Volvo.

COLLABORATIVE ENGAGEMENT

COLLABORATIVE INVESTOR MEETINGS

Uyghur Engagement

Objective: LAPFF has continued to investigate issues of Uyghur forced labour in Xinjiang and other regions of China. After two engagements with companies earlier in the year, LAPFF has been looking at potential ways forward through collaborative engagement on the issue.

Achieved: LAPFF joined the Investor Alliance for Human Rights Uyghur Region Engagement Group earlier in the year and has attended a quarterly meeting, gaining insight into what other investors have learned in their engagements. The Forum also reached out to the Australian Strategic Policy Institute (ASPI), which produced the report 'Uyghurs for Sale' in March 2020, linking 82 global brands to factories in the Xinjiang region with suggestions of forced Uyghur Labour.

LAPFF met with ASPI representatives to discuss the work it had done for this report and for a wider discussion on its work around the issue. The conversation implied that companies operating in the Xinjiang region could not undertake the thorough levels of due diligence they were claiming to be able to do. LAPFF followed up with questions to both Cisco and Dell after meetings earlier in the year, but neither company responded to these questions.

In Progress: LAPFF is currently looking at ways to progress dialogue with companies already engaged on this issue and how to get non-responders to engage in a meaningful manner.

ShareAction Good Work Coalition

Objective: Following meetings with Sainsbury in Q1 and Q2 2020, LAPFF has maintained an interest in ShareAction's Good Work Coalition which looks at the living wage and insecure work, amongst other issues.

Achieved: LAPFF joined a collaborative call, organised by ShareAction, with Marks & Spencer representatives to discuss the company's approach to pay. M&S representatives noted that it was considered workers were paid wages at a fair standard as they are already above the Real Living Wage (RLW) as defined by the Living Wage Foundation (LWF). However, this wage level is not currently matched for the company's third-party contractors. M&S appears keen to maintain a dialogue with the LWF to see where it can improve but did not appear to want to work towards LWF accreditation. This was due to concerns about a loss of independence of a large portion of its cash flow.

In Progress: LAPFF continues to monitor work on the RLW and work undertaken by ShareAction's Good Work Coalition.

Rathbones Votes Against Slavery

Objective: Rathbones' Votes Against Slavery engagement targets companies in the FTSE350 that fail to comply with Section 54 of the UK's Modern Slavery Act. At the beginning of this year's engagement, 46 of these companies failed to meet the minimum reporting standards of the act, and with the engagement having had a strong success rate since its inception in 2019, LAPFF continued to support the initiative.

Achieved: ITV was included in the engagement based on an out-of-date statement, although this inclusion appeared to be due to an administrative error on the website rather than the statement actually being out of date. LAPFF joined Rathbones on a call with ITV representatives to discuss the company's approach to modern slavery in July after this topic had been broached between Rathbones and ITV. ITV provided an overview of some of the work it has been doing around due diligence and its updated grievance mechanisms. The company provides a more comprehensive Modern Slavery Statement than a number of others companies in the FTSE350, and also provides case studies of enhanced due diligence.

In Progress: LAPFF continues to support Rathbones' Votes Against Slavery and other engagements on modern slavery. It has also volunteered to lead on upcoming company engagements with CCLA's 'Find It, Fix it, Prevent It' engagement, which seeks out companies to identify issues on modern slavery in their supply chains more proactively.

10

Access to Nutrition Index (Kellogg)

Objective: Continuing engagement on the role food producers play on public health, the Forum maintains a dialogue with companies through the Access to Nutrition Index (ATNI). LAPFF acts as co-lead for engagement with Kellogg's and met with company representatives for the first time in February 2022, agreeing to maintain a continuing dialogue. LAPFF met with Kellogg's for the second time under this engagement in August.

ENGAGEMENT

Achieved: Since the first meeting, the company announced its decision to split into three stand-alone publicly listed companies. In the meeting, the company's approach to governance, lobbying, labelling and responsible marketing was discussed. It was unclear how these issues were going to be approached when looking at the split into three companies although the company appears to be making progress across all of the topics covered.

In Progress: A newer iteration of ATNI's annual report is set to be released later in 2022 and dialogue with Kellogg's is set to continue alongside this.

30% Club Investor Group

Objective: Looking further afield from FTSE listed companies, the 30% Club Investor Group has started a global engagement looking at laggards on gender board diversity in the USA.

Achieved: LAPFF joined a number of investors in writing to three companies, Charter Communications, Liberty Media and Transdigm Group. No meetings have yet been arranged from this correspondence; Liberty Media provided a one sentence response.

In Progress: Pressure will continue to be placed on these companies for a meeting, and other global companies will be sought out for engagement on board diversity.

CONSULTATION RESPONSES

Transition Plan Taskforce

Objective: The Transition Plan Taskforce (TPT) was set up by the UK government to develop a 'gold standard' for climate transition plans. Launched by HM Treasury, the TPT aims to help financial institutions and companies prepare rigorous transition plans. A Call for Evidence on a Sector-Neutral Framework for private sector transition plans closed in mid-July.

Achieved: LAPFF's response draws upon the Forum's experience of engaging with private sector companies on climate plans and a just transition and sets out expectations that there should be a principle-based transition plan template. Different sectors can then apply existing and developing guidance in identifying risks and opportunities, and setting strategy, targets and timeframes aligned with remaining objectives within the scientifically identified global carbon budget. Principles that LAPFF wishes to see embedded include coverage of Scopes 1-3 emissions, inclusion of short, medium and long-term targets; a focus on actual emission reductions (real zero) rather than offsetting and carbon capture (net zero); and the inclusion of the social dimension, aiming for a fair and just transition.

In Progress: The TPT will initially report by the end of 2022.

MEDIA COVERAGE

Mining

Combating Environmental Racism: 'British court decides it will try BHP Billiton's crime against the Rio Doce'
S&P Global: 'Fund chief to make ESG-linked visit to Brazil communities hit by iron ore dam slides'
Pensions Age: 'LAPFF Chair announces Brazil dam collapse visit'
BN Americas: 'Visit by UK pension fund rep cranks up ESG pressure on Brazilian miners'

Israel & Palestine

Pensions Expert: 'LGPS responds to Israeli settlements database complaint'

30% Club

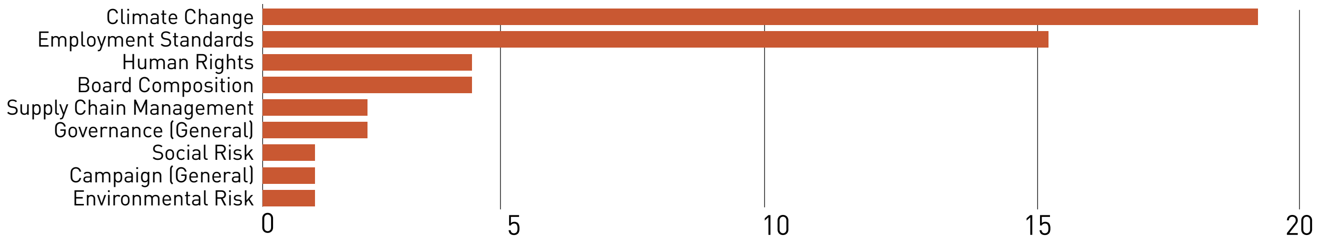
Citywire Selector: 'Exclusive: 30% Club extends its race equity management to FSTE 250'

Water Stewardship

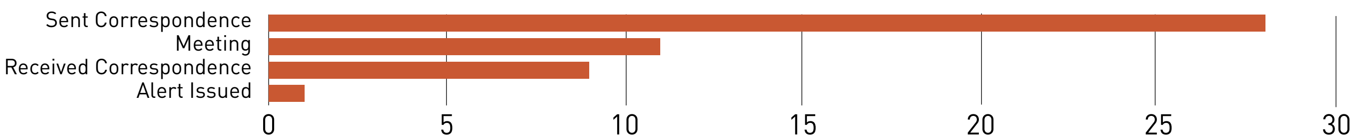
ESG Investor: 'Investors Seek to Pull Plug on Water Risks'
Responsible Investor: 'Leading investors put companies on notice over global water crisis'
Pensions & Investments: 'Investors join forces to address financial, environmental risks of water'
Pensions & Investments: 'Investors tuning into financial risks of water quality and scarcity'
Business Green: 'Fiduciaries must act': Ceres calls on world's largest firms to respond to global water crisis'
Reuters: 'Global investors group to pressure corporations on water risks'
Syndicated in Nasdaq and Zone Bourse

ENGAGEMENT DATA

ENGAGEMENT TOPICS

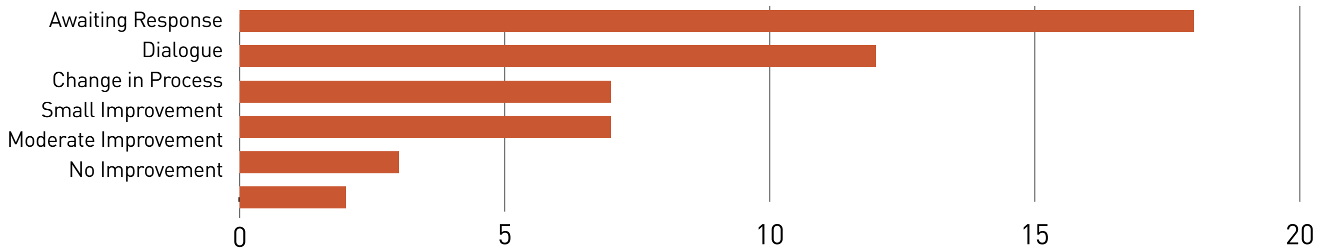


ACTIVITY



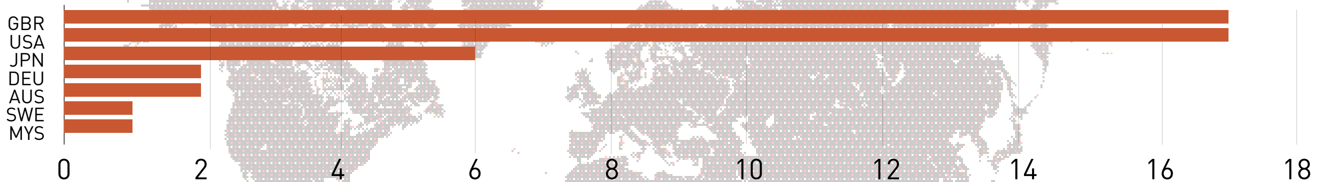
10

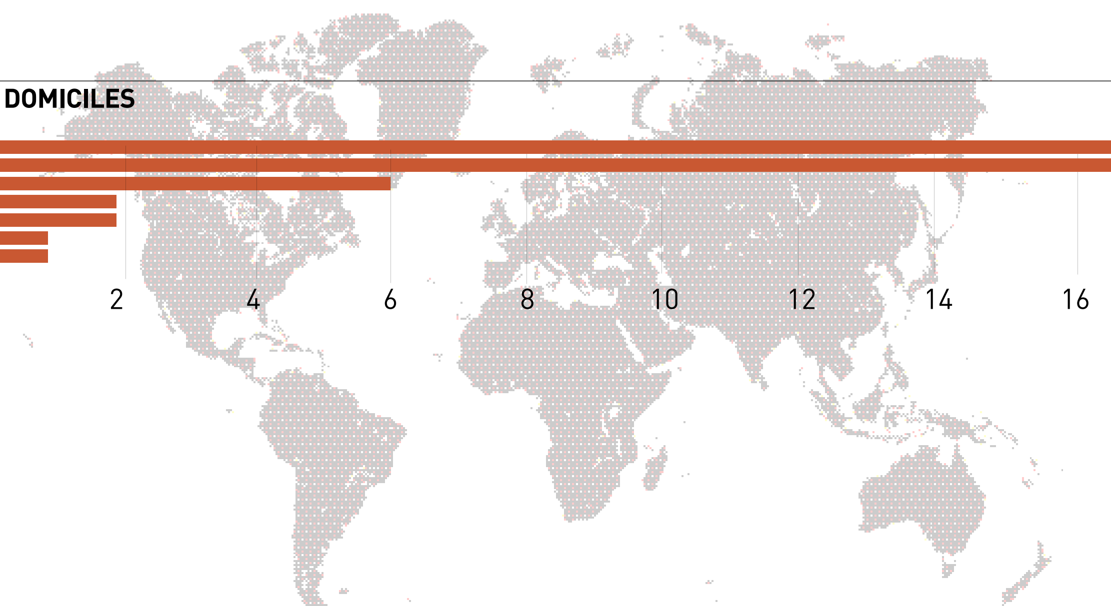
MEETING ENGAGEMENT OUTCOMES



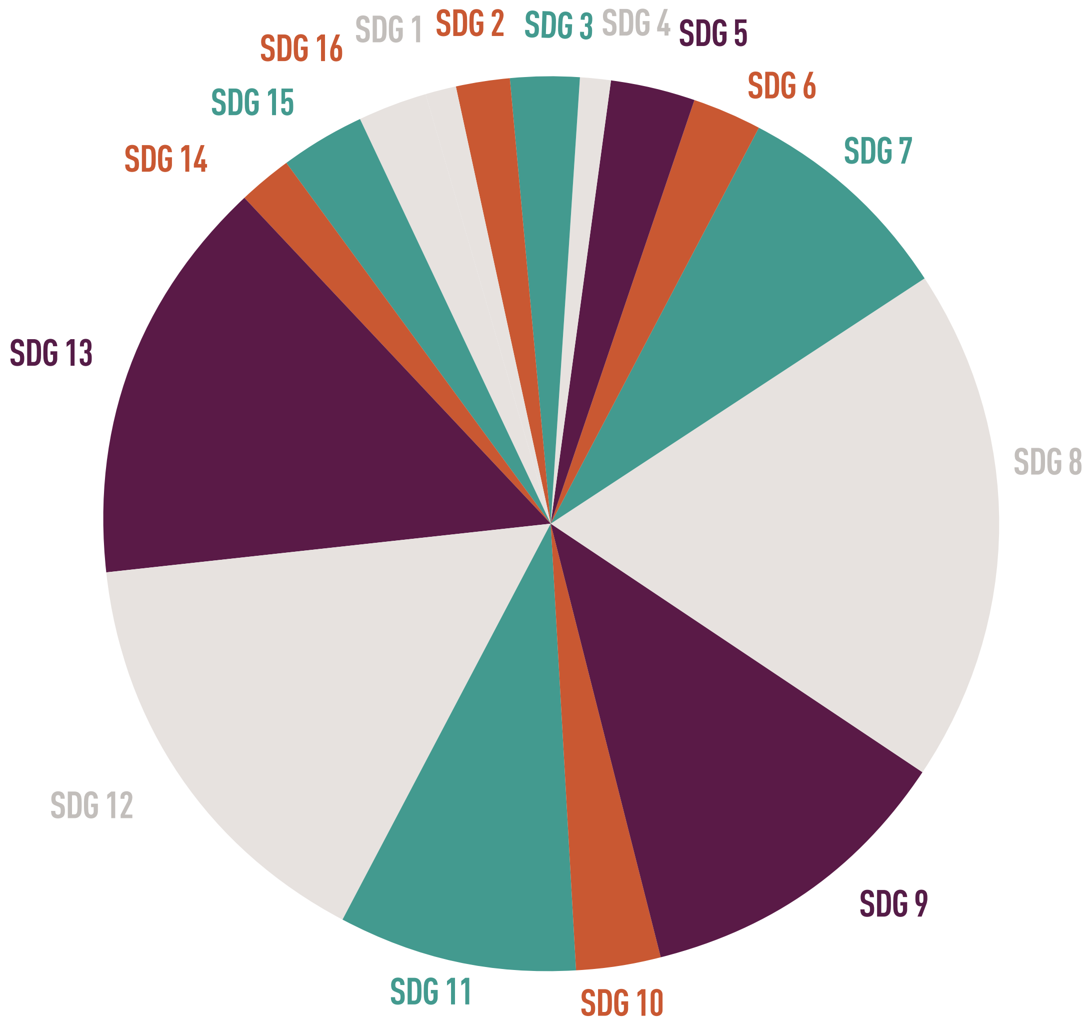
POSITION ENGAGED

COMPANY DOMICILES





ENGAGEMENT DATA



10

LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	5
SDG 6: Clean Water and Sanitation	4
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	30
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	14
SDG12: Responsible Production and Consumption	25
SDG 13: Climate Action	24
SDG 14: Life Below Water	3
SDG 15: Life on Land	5
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

COMPANY PROGRESS REPORT

35 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Company/Index	Activity	Topic	Outcome
ALPHABET INC	Sent Correspondence	Employment Standards	Awaiting Response
AMAZON.COM INC.	Received Correspondence	Employment Standards	Dialogue
APPLE INC	Sent Correspondence	Employment Standards	Awaiting Response
BHP GROUP LIMITED (AUS)	Sent Correspondence	Governance (General)	Dialogue
CHARTER COMMUNICATIONS INC	Sent Correspondence	Board Composition	Awaiting Response
CIMB GROUP HOLDINGS BERHAD	Sent Correspondence	Climate Change	Change in Process
ELECTRIC POWER DEVELOPMENT CO	Sent Correspondence	Climate Change	Change in Process
FORD MOTOR COMPANY	Meeting	Supply Chain Management	Dialogue
ITV PLC	Meeting	Human Rights	Moderate Improvement
JD SPORTS FASHION PLC	Sent Correspondence	Employment Standards	Awaiting Response
KASIKORNBANK PCL	Sent Correspondence	Climate Change	Dialogue
KELLOGG COMPANY	Meeting	Social Risk	Small Improvement
LIBERTY MEDIA CORPORATION	Sent Correspondence	Board Composition	Awaiting Response
LONDON STOCK EXCHANGE GROUP PLC	Sent Correspondence	Climate Change	Dialogue
MARKS & SPENCER GROUP PLC	Meeting	Employment Standards	Small Improvement
MERCEDES-BENZ GROUP AG	Sent Correspondence	Human Rights	Awaiting Response
META PLATFORMS INC	Sent Correspondence	Employment Standards	Awaiting Response
MIZUHO FINANCIAL GROUP INC	Meeting	Climate Change	Small Improvement
NATIONAL GRID GAS PLC	Received Correspondence	Climate Change	Moderate Improvement
NEXT PLC	Sent Correspondence	Employment Standards	Awaiting Response
PACCAR INC.	Sent Correspondence	Climate Change	Awaiting Response
RIO TINTO PLC	Meeting	Climate Change	Small Improvement
ROLLS-ROYCE HOLDINGS PLC	Received Correspondence	Climate Change	Dialogue
ROYAL MAIL PLC	Sent Correspondence	Employment Standards	Awaiting Response
SIEMENS AG	Sent Correspondence	Employment Standards	Awaiting Response
SSE PLC	Alert Issued	Campaign (General)	Moderate Improvement
STARBUCKS CORPORATION	Received Correspondence	Employment Standards	No Improvement
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Board Composition	Small Improvement
TESCO PLC	Sent Correspondence	Supply Chain Management	Dialogue
TESLA INC	Sent Correspondence	Employment Standards	Awaiting Response
THERMO FISHER SCIENTIFIC INC.	Sent Correspondence	Employment Standards	Awaiting Response
TRANSDIGM GROUP INCORPORATED	Sent Correspondence	Board Composition	Awaiting Response
VALE SA	Meeting	Human Rights	Dialogue
VALE SA	Meeting	Human Rights	Dialogue
VOLVO AB	Sent Correspondence	Climate Change	Awaiting Response
WALMART INC.	Sent Correspondence	Employment Standards	Awaiting Response

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Isle of Wight Pension Fund
Islington Pension Fund
Kent Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Scottish Borders Council Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members
Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

This page is intentionally left blank

ROBECO
The Investment Engineers

10

ACTIVE OWNERSHIP REPORT

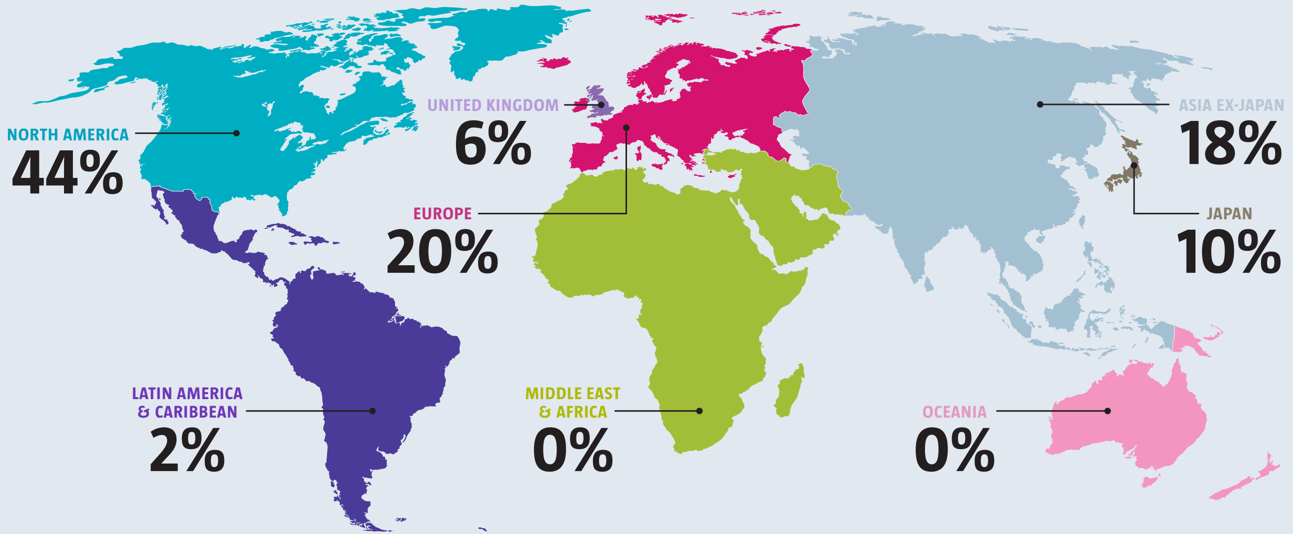
ROBECO | 01.07.2022 - 30.09.2022

Q3 2022

Sustainable Investing Expertise by ROBECOSAM

Q3|22 FIGURES ENGAGEMENT

Engagement activities by region



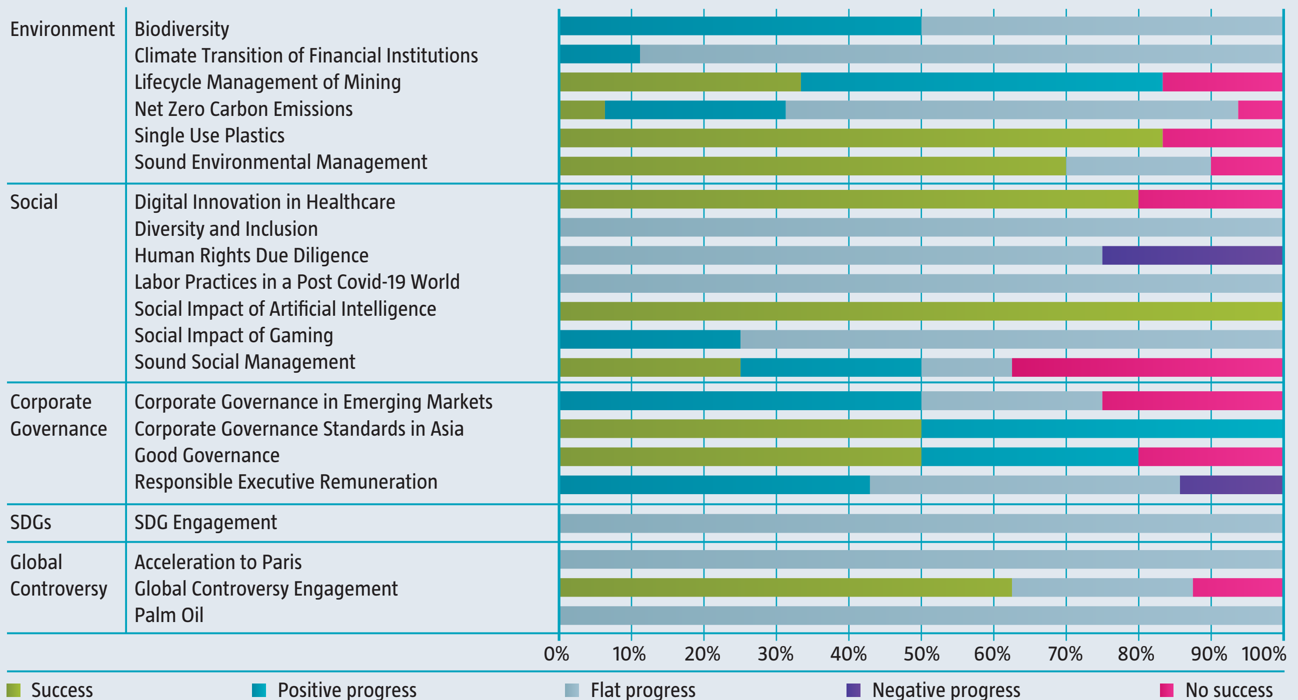
Number of engagement cases by topic*

	Q1	Q2	Q3	Q4
Environment	23	25	17	
Social	12	17	14	
Corporate Governance	13	13	10	
SDGs	10	14	9	
Global Controversy	9	7	5	
Total	67	76	55	

Number of engagement activities per contact type

	Q1	Q2	Q3	Q4	YTD
Meeting	1	1	2		4
Conference call	42	44	32		118
Written correspondence	50	68	34		152
Shareholder resolution	0	1	0		1
Analysis	9	15	17		41
Other	1	6	1		8
Total	103	135	86		324

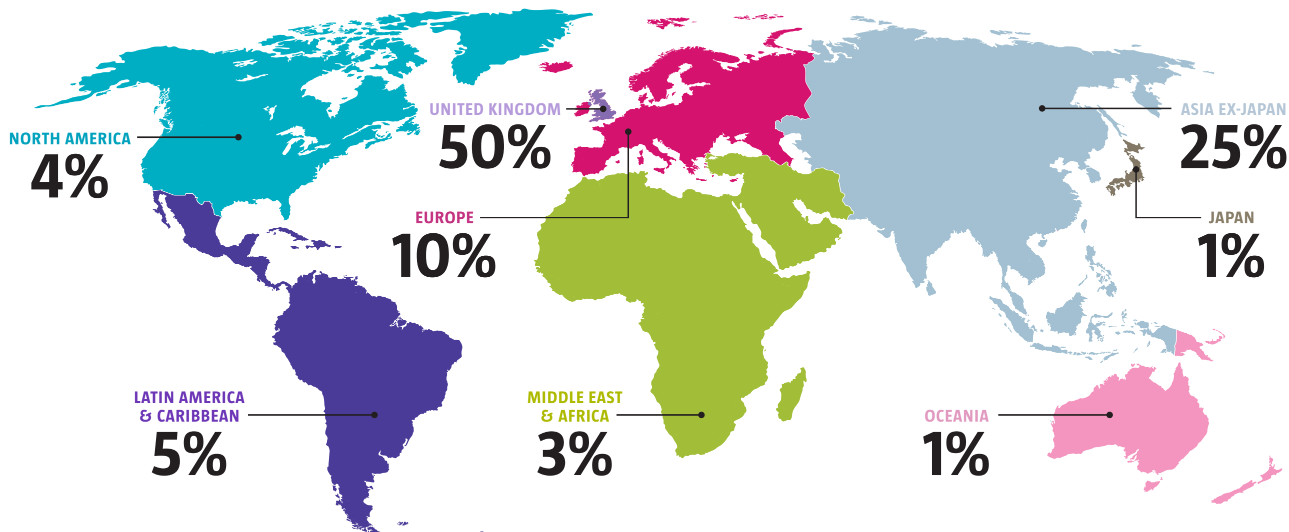
Progress per theme



* Due to a change in Robeco's methodology to account for engagement cases, numbers are expected to differ from previous quarters.

Q3|22 FIGURES VOTING

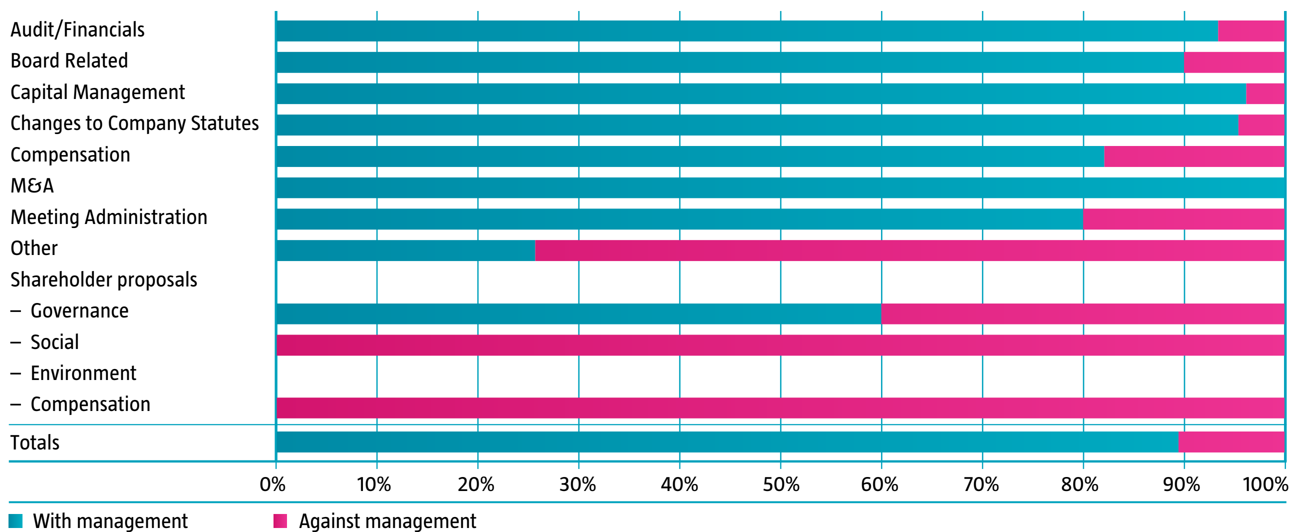
Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	121	573	134		828
Total number of agenda items voted	1,398	8,750	1,599		11,747
% Meetings with at least one vote against management	60%	72%	56%		68%

Votes cast per proposal category

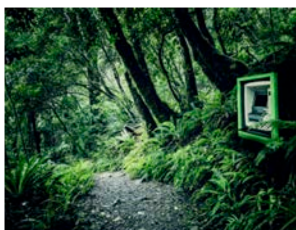


CONTENTS

Diversity and Inclusion & Natural Resource Management

6

In an interview, Laura Bosch, Antonis Mantsokis and Sylvia van Waveren reflect on how the need to address companies' adverse impacts is uniting even the most different engagement topics, as reflected by our new engagement themes on Diversity and Inclusion, and Natural Resource Management. Throughout the article, they explain the business case behind managing companies' negative externalities and how through their engagements they aim to do just that.



Climate Transition of Financial Institutions

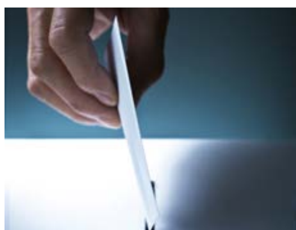
12

After more than one year of engagement with the financial sector, Robert Dykstra reflects on his engagements in the Climate Transition of Financial Institutions theme. Financial institutions are key to financing the climate transition and while expectations towards them are clear, many struggle to switch their loan books and activities to be transition ready.

Responsible Executive Remuneration

15

This year's proxy season once again highlighted the relevance of well-designed executive remuneration policies. Engagement specialist Michiel van Esch reflects on executive pay practices in times of uncertainty, and explains what companies need to watch out for if they wish to get shareholder support on their executive pay proposals.



Proxy Voting

18

Engagement specialist Diana Trif and active ownership analyst Lucas van Beek reflect on some of the recent trends in proxy voting, from the increased scrutiny among investors around companies' board elections to the recent legislative changes around submitting shareholder proposals in the US.

INTRODUCTION

During the third quarter of 2022, Robeco has been actively pushing the frontiers of sustainable investment by sharing our intellectual property with our clients, while continuing to work with our investee companies on the engagement areas we deem most critical.

The new quarter was marked by a great step forward for Robeco and its clients as we launched our Sustainable Investing (SI) Open Access Initiative. Through this initiative, we are sharing some of our most valuable proprietary data with our clients and academics, including Robeco's proprietary Sustainable Development Goal (SDG) scores and methodology, in the hope that we can work together to build a more robust sustainable investment landscape.

Meanwhile, on the engagement side, we have launched two new engagement themes. Our new Diversity and Inclusion engagement program is working to address the societal inequalities mirrored throughout gender and ethnic pay gaps, discriminatory company policies and unequal promotional opportunities. By considering their most vulnerable employees at each step of their human capital management, companies can strengthen employee attraction, lower turnover costs and benefit from diverse perspectives and skillsets. Through this theme, we hope to help companies elevate each part of their workforce, and thus create value for both them and society.

On the environmental side, in line with the rising summer temperatures and climate change-induced droughts across the world, we have initiated a new engagement stream on Natural Resource Management. This focuses on companies working in water and/or waste-intensive sectors and will look not only at strengthening companies' water and waste policies, but also whether they have strong operational processes around emergency situations. The engagement theme will also address chemical waste and seabed mining and tailings.

Elsewhere in this report, we provide an update on some of our ongoing engagements. With the quarter marking the mid-point of our three-year engagement around the Climate Transition of Financial Institutions, we see that only few banks are on credible net-zero trajectories. Many still lack adequate targets and essential carbon emissions data throughout their loan books. These are all issues that were echoed by the shareholder proposals we supported at numerous banks during the 2022 proxy voting season.

The aftermath of the proxy season always provides grounds for engagement on the topic of Responsible Executive Remuneration, as companies are trying to understand investors' reasons for voting against pay-related agenda items. During our update, we delve into some of the best practices we advocate for when it comes to executive remuneration, as well as some concerning trends we see across companies. These include the growing use of ill-designed sustainability-linked performance pay packages which are being used as a remuneration cushion, rewarding executives during times of bad company performance.

We enter the new quarter with clearly laid out engagement priorities and a strong mandate for transparency and look forward to the change to come.

Carola van Lamoen
Head of Sustainable Investing

10

Focus on companies' impacts on human and natural resource management

DIVERSITY AND INCLUSION & NATURAL RESOURCE MANAGEMENT

10

LAURA BOSCH – *Engagement specialist*
ANTONIS MANTSOKIS – *Engagement specialist*
SYLVIA VAN WAVEREN – *Engagement specialist*

More and more investors are moving beyond measuring sustainability only through the material environmental, social and governance (ESG) risks companies are facing, and increasingly try to identify the impacts that companies' activities have on society, whether through their products or processes. In this interview, Laura Bosch, Antonis Mantsokis and Sylvia van Waveren share how Robeco's new Diversity and Inclusion, and Natural Resource Management themes aim to explicitly address some of the key adverse environmental and social impacts companies can have.

Why are we launching these engagement themes, and where do they differ from other programs?

The focus of sustainable investing is increasingly shifting from the idea of single financial materiality to the concept of double materiality, whereby the focus is no longer only on how sustainable development impacts companies but also how companies contribute to this development. This includes both positive and adverse impacts, where addressing adverse impact has been the key driver behind our new engagement themes. Adverse impact as a concept ranges from water emissions and negative biodiversity impacts to social violations and gender pay gaps. Impacts which the European Commission is now making investors report on, in particular through the Principal Adverse Impact Indicators (PAI) defined in the EU Sustainable Finance Disclosure Regulation (SFDR). The regulation requires investors in the EU to disclose performance against at least the mandatory PAIs for their holdings, using a set of ESG metrics reflecting their negative externalities.

While we have been addressing adverse impacts within our engagement program for many years, we took the opportunity to identify potential gaps in our engagement approach using the mandatory list of PAIs in 2021. As a result of the analysis, we are now launching two new engagement themes explicitly covering Diversity and Inclusion and Natural Resource Management. The two themes aim to support companies in facing some of their core negative impacts around their human and natural resource management, and push for more transparency as required by the PAIs.

These engagement programs differ from our conventional themes as they were designed to incorporate a higher degree of flexibility. They need to gradually increase coverage, as they follow the development of PAI-related data and increasing engagement demand. The two themes are expected to run continuously, instead of over the usual three years. Moreover, timelines for the engagement dialogues can be shortened if successful outcomes are achieved at an earlier stage.

DIVERSITY AND INCLUSION

sitting down with Laura Bosch and Antonis Mantsokis

Firstly, looking at Diversity and Inclusion – why is this relevant for investors?

The relevance of Diversity and Inclusion (D&I) for investors can be understood through the double materiality lens. From a financial standpoint, D&I can enhance corporate performance in many ways: recruiting and retaining the best talent, having stronger customer orientation, enhancing corporate reputation, and improving decision-making and innovation outcomes. Many industries are becoming increasingly knowledge-intensive, which is materialized financially by the more prominent role that intangibles play in global balance sheets.

Therefore, human capital management strategies, including the promotion of diversity and inclusion, are significantly important in determining a company's underlying quality and intrinsic value. Investors should therefore integrate such factors into their investment approach to formulate better-informed decisions.

At the same time, the benefits stemming from an inclusive and diverse workforce flow through to the macro environment and have a societal impact. Barriers for women and minorities to enter the labor market, such as pay distortions, social and cultural factors, and outright discrimination, work against achieving parity and have a financial cost. Poor allocation of human resources that wastes an individual's education, talent and

potential, contributes to this cost. The resultant welfare gains after removing the obstacles are estimated to be more significant. Providing employment opportunities and equal remuneration to minority groups can minimize structural wealth gaps between societal groups. Subsequently, this would have a direct impact on society and the economy as a whole.

What are the aims of the theme?

We formulated five engagement objectives to facilitate our dialogue on D&I. The first step towards creating a more diverse workforce is developing a D&I policy, resulting in a higher-level commitment and a consistent approach to advance D&I throughout the company. It should include a set of time-bound goals that are sufficiently ambitious to effectively diversify a company's workforce. Once these goals are in place, a critical next step is to clearly define how to establish D&I as a priority among corporate leaders and hold them accountable for their contributions. This includes having a sufficiently diverse leadership and board of directors, latter of which is measured by the PAIs.

Our second objective focuses on how companies define their D&I implementation strategies and measures of success for aligning their talent management strategy with their business goals and D&I objectives over the different stages of the employee lifecycle. Thirdly, we encourage companies to disclose workforce diversity data, focusing not only on ethnic or gender diversity across different employment bands and employee levels, but also incorporating other diversity components.

The fourth objective focuses on overall pay equality. Companies should undertake audits to ensure they address any pay gaps in their D&I strategy. We expect companies to provide quantitative statistics, complemented by qualitative assurances, for both adjusted and unadjusted median pay gaps, as required by the mandatory PAIs. Finally, we encourage companies to promote an inclusive culture by taking a strategic approach to shaping attitudes and behaviors in the workplace that can shift workplace culture in a meaningful way.

How do you decide which companies should be under engagement?

The lack of data is the main challenge identified by investors when assessing companies' efforts on diversity and inclusion. With that in mind, we first identified those industries where disclosure of diversity data is lagging. We looked at the PAI indicators using data produced by MSCI and the S&P Global Corporate Sustainability Assessment (CSA). For our engagement, we prioritized the 20 industries with the lowest levels of disclosures.

Within those selected industries, we identified the first set of companies by screening those that fail to disclose their unadjusted gender pay gap, in line with PAI requirements, and also did not answer the diversity-related questions in the CSA questionnaire. The questionnaire

'ONCE (D&I) GOALS ARE IN PLACE, A CRITICAL NEXT STEP IS TO CLEARLY DEFINE HOW TO ESTABLISH D&I AS A PRIORITY AMONG CORPORATE LEADERS AND HOLD THEM ACCOUNTABLE FOR THEIR CONTRIBUTIONS.'

LAURA BOSCH I ANTONIS MANTSOKIS

looks at aspects like age, disabilities, sexual orientation and broader human capital-related factors. We also considered gender-focused data sources, namely RobecoSAM's gender score and the Equileap score, which assess the inclusion of women across companies. Additionally, we collaborated closely with our portfolio managers and analysts to decide upon the final selection of companies.

What other actions will be taken in line with this engagement?

The Black Lives Matter and MeToo movements both highlighted the negative impact of today's systematic inequalities. Investors have increasingly been putting pressure on companies by supporting social-related shareholder resolutions, and stakeholders are holding those companies that do not promote D&I to account.

In line with this engagement, we will continue to vote against management on specific agenda items when the company fails to incorporate minimum standards on gender diversity at the board level. We will continue to evaluate issues on a case-by-case basis, and support those shareholder resolutions that aim to resolve social issues such as racial equality. Additionally, we will explore filling shareholder resolutions focusing on promoting D&I in those companies where we see no progress and the social issues continuously persist.

What challenges do you expect to face and what are the outcomes you expect to achieve?

Promoting D&I is a challenging topic at its core due to differences in company cultures and regional practices. There are many benefits stemming from promoting diversity metrics or goals, and having D&I policies in place. However, practically improving inclusion is not always addressed with equal importance, and it is much more challenging to measure it. In many cases, it isn't easy to assess if the spirit of the policies in place is accomplished in practice.

Another significant hurdle that we expect to face is how to equally address all aspects of diversity, and move the conversation beyond simply looking at gender. There are still many countries where identifying as LGBTQ+ remains illegal, and cultural norms prohibit companies from promoting an inclusive culture. Moreover, processing employees' D&I-related data is prohibited in many countries, due to privacy restrictions (i.e., GDPR in the EU), making it difficult to have targeted policies. In addition, companies usually focus on promoting female representation on the board or at the top management levels, and stick to a mechanical implementation of gender-only quotas. Promoting practices that address the benefits of the integration of various minority groups will be challenging.

Lastly, pay equality is an issue not easy to resolve. According to World Economic Forum's Global Gender Gap report 2020, it will take 257 years to achieve equal pay for women and men at work at the current rate. Pay disparity, though primarily gender-focused, also exists regarding race, ethnicity, sexual orientation, disabilities and age. Thus, it is challenging to promote structural solutions in pay equality when in many countries there are no regulatory requirements to tackle the broader aspects of the pay gap.

ENGAGING ON NATURAL RESOURCE MANAGEMENT

by Sylvia van Waveren

Moving to the environmental front - Why is Natural Resource Management relevant for investors?

The world is facing a dire shortage of freshwater, a situation that is set to only get worse due to urbanization, population growth, climate change and socio-economic development. The World Research Institute's Aqueduct Water Risk Atlas reveals that 44 countries currently face high baseline water stress covering one-third of the world's population.

Companies operating in highly water-stressed regions are not only exposed to these risks but also often enhance them through their own water usage and pollution. Disregarding both their impacts and risks can impact corporate valuations through higher operating costs, thus threatening their viability if they do not sustainably manage their water use. This risk is estimated to amount to USD 301 billion for companies, while the cost of addressing their adverse impacts is estimated to be less than one-fifth of that, at USD 55 billion.

It is therefore important for investors to engage with such companies on having resilient water management strategies. Those with poor strategies are more likely to experience production disruptions, stranded assets and community conflicts, all resulting in higher comparative operational and fixed costs which will reduce their overall rate of return.

What are the aims of the theme?

To act upon these risks, Robeco has expanded its environmental engagement program to include the responsible management of natural resources and the mitigation of adverse impacts on the environment. The engagement theme aims to address the impacts of corporate operations related to their intensive water use and generation of waste.

Our engagement strives to minimize risks through a set of objectives that aim to enhance corporate disclosures on their management of water and waste issues. The engagement will also address major issues such as seabed mining and tailings, and the gross emissions of PFAS chemicals into waterways.

How will you assess which companies should be under engagement?

Companies need to account for the amount of freshwater that is needed to make certain products – often drawn from places where water is already scarce. The discharge of wastewater also remains problematic and therefore needs to be addressed. To address these issues, we focus on companies for which the management of water and waste generation and disposal management is a financially material issue, or where corporate operations have a significant actual or potential negative environmental impact due to water or waste issues.

Thus, in our water engagements, the focus is on companies operating in high water-stress areas as well as those deemed to have high water consumption. In the waste engagements, the focus is on companies that generate hazardous waste such as PFAS chemicals and (threaten to) pollute the environment, including companies exploring seabed mining and tailings.

In July 2022, we started engaging with the first group of six companies. They were chosen using a bottom-up and fundamental approach by Robeco's research and investment analysts. They belong to three sectors: Chemicals (fertilizers and mines); Oil and Gas (shale gas); and Paper and Pulp (operating in South Africa, a water scarce area).

What other actions will be taken in line with this engagement?

We have developed a water and waste management framework tool to assess how well a company has incorporated the management of such risks into their practices. This framework, depicted in Figure 1, evaluates several indicators related to their water and waste policies, their risk management programs, their metrics, targets and disclosures, among others. The insights from this assessment inform our engagement priorities and facilitates the tracking of progress against our engagement objectives.

10

Figure 1 | Water and waste management evaluation framework

Another important action is recording incidents and controversies that had adverse environmental impacts, such as water depletion and pollution. Frequent involvement in these types of incidents is a sign of exposure to ESG risks and a company's failure to manage them. Incidents that go unmanaged can potentially lead to an erosion of shareholder value. We base our work on UN Global Compact and OECD guidelines.

What have been your first insights and how will you continue?

We expect that our methodology to identify companies to engage with will continue to evolve and be refined as the relevant data continues to improve and become more broadly available, including that used to measure the SFDR PAIs. We believe that engagement is one of the tools that we can use in addressing and mitigating adverse impacts at the company level and were pleased with companies' initial openness to discuss their approach to natural resource management. ■

Financing the climate transition

CLIMATE TRANSITION OF FINANCIAL INSTITUTIONS

ROBERT DYKSTRA – *Engagement specialist*

It has become increasingly clear that the banking sector has a critical role to play in the low-carbon transition. Banks can facilitate investments in low-carbon solutions and encourage emission reductions through climate-aware financing and engagement with their clients. Banks that continue to finance activities not aligned with the low-carbon transition create significant transition and physical risks associated with accelerating global warming.

10

The fast-evolving landscape

Various stakeholders including investors, governments and the public have put an increasing amount of pressure on the financial sector to advance the economy-wide transition towards net zero emissions. This was highlighted at COP 26 in November 2021, which saw several guidelines emerge to help financial institutions measure their 'financed emissions' – those associated with loans, investments and other financial products. These guidelines include the Partnership for Carbon Accounting Financials (PCAF), the Paris Agreement Capital Transition Assessment (PACTA) and the Science Based Targets Initiative's (SBTi) guidance for the financial sector. Several other initiatives have also been started to help the financial sector align with net zero, such as the Glasgow Financial Alliance for Net Zero (GFANZ) and the Net Zero Banking Alliance (NZBA).

While many banks are dealing with operational challenges such as emission data collection and new governance structures, the expectations around disclosures and targets are becoming ever-more stringent. For example, the NZBA has outlined a timeline for setting sector-specific decarbonization targets by 2024. However, these targets should also be aligned with a credible net zero emission scenario, such as the ones established by the International Energy Agency (IEA). Several banks have already set targets that now need to be readjusted to be aligned with a particular scenario. Many banks are also expected to disclose fossil fuel lending policies that outline the criteria for denying clients access to loans or capital markets.

A collaborative engagement approach

With our three-year engagement program on the climate transition of financials having reached its mid-point, we take stock of the progress made and upcoming challenges that banks will face in executing their climate strategies. At the start of this engagement theme, we selected 10 banks amongst our and our clients' portfolios with significant exposure to carbon-intensive assets.

To maximize the effectiveness of our engagement strategy, we collaborate with the Institutional Investor Group on Climate Change (IIGCC), which coordinates a larger investor initiative on banks' climate strategies. The IIGCC, in partnership with the Transition Pathway Initiative (TPI), is developing a framework to assess how prepared banks are for the low-carbon transition. The framework consists of many indicators that have been selected following significant investor consultation and tested on 27 banks from across the globe based on disclosures published up to February 2022. Over the coming months, the IIGCC and TPI will continue their consultation on these indicators to improve and fine-tune the framework so that a final version can be published in late 2022.

'BANKS SHOULD EXPAND THEIR NET ZERO COMMITMENTS TO INCLUDE ALL HIGH-RISK SECTORS IN ALL MATERIAL BUSINESS SEGMENTS. THIS MEANS NOT ONLY FOCUSING ON REDUCING FINANCED EMISSIONS THROUGHOUT THEIR LOAN BOOKS, BUT ALSO IN CAPITAL MARKET ACTIVITIES SUCH AS UNDERWRITING AND M&A.'

ROBERT DYKSTRA

10

The indicators are grouped into the following six areas and provide a comprehensive picture of a bank's net zero transition plan:

1. Net zero commitments
2. Short and medium-term targets
3. Decarbonization strategies
4. Climate governance
5. Climate policy engagement
6. Audit and accounts.

Based on the first round of assessments conducted earlier in 2022, average alignment with credible net zero trajectories amongst banks is relatively low. This is in part due to the lack of disclosure of carbon emission data throughout their loan books, but also because of insufficient target-setting at the time of the assessment. These six elements of the framework correspond with our existing engagement objectives, which are based on the four pillars of the Task Force for Climate-related Financial Disclosure (TCFD).

Future steps and upcoming challenges

The assessment outlines several areas for banks to improve their climate strategy, primarily through enhanced disclosures and financed emission reduction targets. Specifically, banks should expand their net zero commitments to include all high-risk sectors in all material business segments. This means not only focusing on reducing financed emissions throughout their loan books, but also in capital market activities such as underwriting and M&A.

More transparency on how banks engage with clients is also expected in the coming years. For instance, banks should disclose explicit financing conditions for clients whose transition plans are not aligned with a net zero emissions pathway. These conditions could be outlined in a dedicated coal or oil and gas lending policy which we have seen at several major banks. This includes aligning all high-risk sector policies with a 1.5°C warming scenario. For example, the IEA's Net Zero Emissions by 2050 scenario requires banks' coal sector policies to include:

- No financing of additional capacity for thermal coal operations.
- Phasing out of financial services and portfolio exposure to unabated coal-fired power generation by 2030 in the EU and OECD countries, and in the rest of the world by 2040 at the latest.

These expectations have been echoed by shareholder proposals filed at numerous banks during the 2022 proxy voting season. Banks were asked to define their commitment to being net zero by 2050 and include a timeline by which they would stop all lending related to new fossil fuel supplies. Many banks found these requests overly prescriptive, as they did not take into account regional discrepancies in energy demand, such as heavier coal dependency in emerging markets. Nonetheless, large groups of shareholders, including Robeco, supported these proposals with the aim of making banks' net zero commitments more credible.

In the upcoming second half of the engagement theme, we will use the outcomes of this assessment framework to emphasize the changes that we expect banks to make. So far, several banks are making significant progress, while others appear to be lagging. This is in part due to the varied pressure banks anticipate from looming sustainability regulations in the EU and North America.

Overall, the governance around climate-related financing has been one of our engagement objectives that has seen the most progress. Unfortunately, our objectives around risk management and strategy have seen the least progress. Therefore, we will push for improvements in sector decarbonization strategies and scenario analyses in our upcoming dialogues. ■

CASE STUDY

Our engagement with Sumitomo Mitsui Financial Group (SMFG) is conducted through three different channels: directly with the company; collaboratively through the Asia Research and Engagement (ARE) group; and as members of the IIGCC. Over time, we have seen an increase in the bank's receptiveness to investor feedback. As an example, SMFG was previously a laggard in the disclosure and transparency of its climate-related financing. However, once the company recognized that investors had short-term expectations related to net zero commitments, the bank began to act. SMFG reorganized its internal governance structure to allocate more resources to climate risk management and data collection throughout its business segments. These changes have in turn led to a significant increase in the quality of available disclosures.

The pay for performance crisis

RESPONSIBLE EXECUTIVE REMUNERATION

MICHIEL VAN ESCH – *Engagement specialist*

Executive remuneration often is one of the touchiest topics between investors and company managements. Firstly, there is the discomfort of a group of outsiders forming an opinion on how (and how much) someone should get paid. Secondly, there are often discrepancies between how well management think they have performed and whether investors agree that this actually has created value for them. Yet, the topic of executive remuneration has been relevant since the foundation of the first public stock company and remains a key governance instrument today.

10

In 2019, the EU's amended shareholder rights directive SRD 2 was passed into national legislation across the continent, giving shareholders the right to a vote on remuneration on a structural basis. Similar as in the US, shareholders have an advisory vote on the remuneration report. But they also get a formal say on the review of the remuneration policy at least every four years.

In the second half of 2020, Robeco conducted research into best practices for executive remuneration. An engagement project was initiated in order to make use of the new opportunities that the shareholder rights directive offers. For a set of European and US companies we have focused our engagement practices to improve corporate pay practices on four focus areas. These are (1) to better align pay with performance (including performance on sustainability); (2) to promote equity holding requirements (rather than option structures or cash pay-outs) to have a more straightforward alignment with shareholders; (3) to use ratios and benchmarks in order to avoid excessive pay discrepancies between and within organizations; and (4) to have strong and independent oversight from the supervisory board and feedback mechanisms towards its shareholders.

10

Taking stock of SRD 2

After a year and a half of engagement, it is safe to say that SRD 2 has had an impact. Almost directly after its implementation, we saw several remuneration practices being voted down, and requests for feedback calls picking up. Additionally, many companies are starting to look into incorporating non-financial measures (often ESG metrics) into remuneration packages. This is starting to become common practice across Europe, but is also a trend in the US. We also have seen companies align their reporting practices on remuneration with SRD 2. But have remuneration practices really become any better?

'WE CONTINUE TO SEE COMPANIES THAT HAVE POORLY DESIGNED STOCK PLANS WHICH FAIL TO INCENTIVIZE EXECUTIVES TO FOCUS ON DELIVERING LONG-TERM, SUSTAINABLE PERFORMANCE.'

MICHIEL VAN ESCH

Pay for performance, sustainability and the Covid-19 effect

At the start of our engagement, many companies had most of their financial performance metrics already in place. Even though for many of them we would we prefer that companies evaluate on risk and return-based metrics (such as the return on invested capital) rather than pure profit measures, at least companies' performance indicators and targets are often clearly communicated.

However, during the pandemic many corporates decided to drop these targets as the world's economic circumstances were duly turned upside down. Some companies dropped annual bonuses altogether, but many continued to pay out their bonuses under the argument that the pandemic is an external circumstance that does not relate to company performance. This logic seemed dominant in conversations, particularly in the US. For those companies we focused our engagement on alignment with the shareholder experience. It is common for companies to attribute strong stock performance in economic booms to management and to blame external factors for poor performance during economic downturns.

The introduction of sustainability-related metrics often is a good thing and sometimes we encourage it. However, we have also noted that some companies use sustainability performance as a remuneration cushion. When financial performance was close to zero, sustainability metrics were all met, safeguarding executive pay-outs but without strong disclosure. During our conversations, we aimed to make sure that sustainability metrics are measurable, relevant to the strategy, and sufficiently ambitious.

One common aspect to look out for are targets around metrics on sustainable product portfolios. Many companies set targets to improve the percentage of sustainable revenues that could be attributed to their product pipelines. This could be a valid measure for those companies that have appropriate impact measurement methods in place. However, many companies just re-label more of their products as being sustainable without having much of an impact.

Focus on share-based performance

Equity-linked compensation is widely considered to be an effective means to align the interests of managers and shareholders, and yet this can only be achieved if the equity plan is adequately structured. We continue to see companies that have poorly designed stock

plans which fail to incentivize executives to focus on delivering long-term, sustainable performance. For instance, some companies choose to grant their CEOs long-term incentive awards which are predominantly in the form of time-based equity. We consider it best practice for a majority of an executive's long-term incentive award to be in the form of equity vesting based on performance against pre-set quantifiable targets set over a multi-year period.

In addition, stock options with no performance conditions attached continue to represent a disproportionately large portion of many CEOs' pay packages. We view this as a concern. We favor the use of stock compensation as opposed to stock option compensation, as stock options have been shown to incentivize risk-taking behavior, given that they provide limited downside risk and significant upside potential.

Share ownership guidelines for executives are another important feature of an adequately designed compensation plan. These are meant to ensure that executives build and maintain a meaningful level of stock ownership throughout their tenure, thereby ensuring that manager and shareowner incentives are aligned. Hence, during our conversations, we continue to focus on ensuring that adequate ownership guidelines are in place for executives.

Pay ratios

When analyzing the size of the compensation paid to executive directors, we not only assess the absolute value of the remuneration package, but also how this compares to the company's wider workforce. Investors often use pay ratios to compare top and bottom salaries within an organization. The most popular ratio is the CEO pay ratio, which was introduced by the Dodd-Frank Wall Street Reform and Consumer Protection Act and is calculated by dividing the CEO's remuneration with the pay of the median employee.

Before the pandemic, it had already been established that these ratios were increasing. However, the disrupting characteristics of the pandemic have exacerbated global income inequality through issues such as lost income and rising inflation, both of which have a significantly higher impact on lower-income groups. As a result, and in the pursuit of reversing the increase in global income equality, we expect investors to pay increasingly more attention to the relative pay levels of company executives.

Structure and oversight

Remuneration oversight remains a focal point of our engagement. We focus on ensuring that the committee responsible for remuneration is sufficiently independent so as to provide objective decision-making in the interests of shareholders. In addition, we view it as best practice for companies to engage with shareholders to gain feedback on their pay practices and to thereby set up a process of improving remuneration practices on a continuous basis.

When there is significant dissent on remuneration-related voting items, we expect companies to initiate a dialogue with shareowners to identify what factors prompted the opposition, and to determine what changes to the pay policies and/or practices are needed. We also pay particular attention to whether companies provide clear and transparent disclosure with regards to any instances where discretionary adjustments to pay outcomes or structures are rolled out. Notably, we assess whether the body responsible for remuneration matters adequately discharged its oversight responsibilities by ensuring that an appropriate remuneration structure is in place. ■

CASE STUDY

We have been engaging with UK retailer Tesco on executive remuneration since 2020, when the company's remuneration report was rejected by a majority of the votes cast at the AGM during that year. The company has rolled out meaningful improvements to its compensation plan since we initiated our dialogue. Most recently, Tesco revised its remuneration policy and included ESG metrics in the executive pay design while also simplifying the structure of its short-term incentive plan.

10

Proxy Voting

DIANA TRIF – *Engagement specialist*
LUCAS VAN BEEK – *Active ownership analyst*

Engagement specialist Diana Trif and active ownership analyst Lucas van Beek reflect on some of the recent trends in proxy voting, from the increased scrutiny among investors around companies' board elections to the recent legislative changes around submitting shareholder proposals in the US.

Increased scrutiny on Board Elections

Board elections, the process in which investors have the right to elect directors to the company's Board of Directors during shareholder meetings, have consistently been one of the fundamental aspects of corporate governance. Corporate boards are responsible for sufficient oversight and can act as a sounding board for management by providing insights and foresight on directors' relevant fields of expertise. Good corporate governance is defined by distinct responsibilities between executive and non-executive directors, with board committees delving into specific matters that require more time and resources. Global best practice requires corporate boards to have sufficient independence levels, both overall and within separate board committees, while safeguarding a relevant and diversified set of skills, expertise, and experience amongst directors to reflect all stakeholders' perspectives.

Historically, there has not been much scrutiny around the election of board directors. Especially not in the absence of a proxy contest or dedicated campaign to vote Against certain directors. Often investors went along with management's recommendations as the majority of board elections are considered routine items at companies' annual general meetings (AGMs). However, over the past years we have witnessed a rise in interest from the public as to how investors use their voting rights, which along with other trends resulted in increased scrutiny from shareholders regarding board elections. First of all, this means investors are increasingly demanding the possibility to hold individual directors accountable. This is for instance not possible in the case of a slate election method, where board directors are jointly put forward in one list (a slate). Secondly, investors continue to prefer the ability to re-elect directors on an annual basis, which is not the case when the election frequency is set to more than one year or when a board is staggered, meaning that only a rotating part of the board is eligible for (re-)election.

Besides investor preferences regarding the different election types and frequencies, director opposition by shareholders has increased over the past couple of years. The 2022 proxy voting report by Semler Brossy showed that the percentage of directors from Russel 3000 companies receiving less than 95% support rates from investors has increased from 22% five years ago to 30% in 2022. Insufficient board independence, gender diversity concerns or potential overcommitment, have been standard drivers of voting Against a director's election. However, nowadays shareholders use the election of board directors to signal discontent around broader topics like environmental and social concerns.

In 2020, Robeco introduced a policy to vote Against the nomination of the most accountable board member for companies in high carbon emitting sectors that do not sufficiently address the impact of climate change. This year, we introduced a similar policy related to human rights, identifying and voting Against the election of the most accountable board member for companies that face significant human rights issues and are linked to social controversies, while performing insufficient due diligence regarding their human rights impacts. Robeco has also been signaling its discontent regarding some companies' persistent unacceptable remuneration practices by voting Against the Chairs of their remuneration committee for multiple years now. Finally, we expect shareholders to carry on showing their increased scrutiny of corporate actions, by opposing relevant agenda items such as the re-election of a board member, and we aim to continuously broaden our policies both in terms of scope and themes.

Market developments in the United States

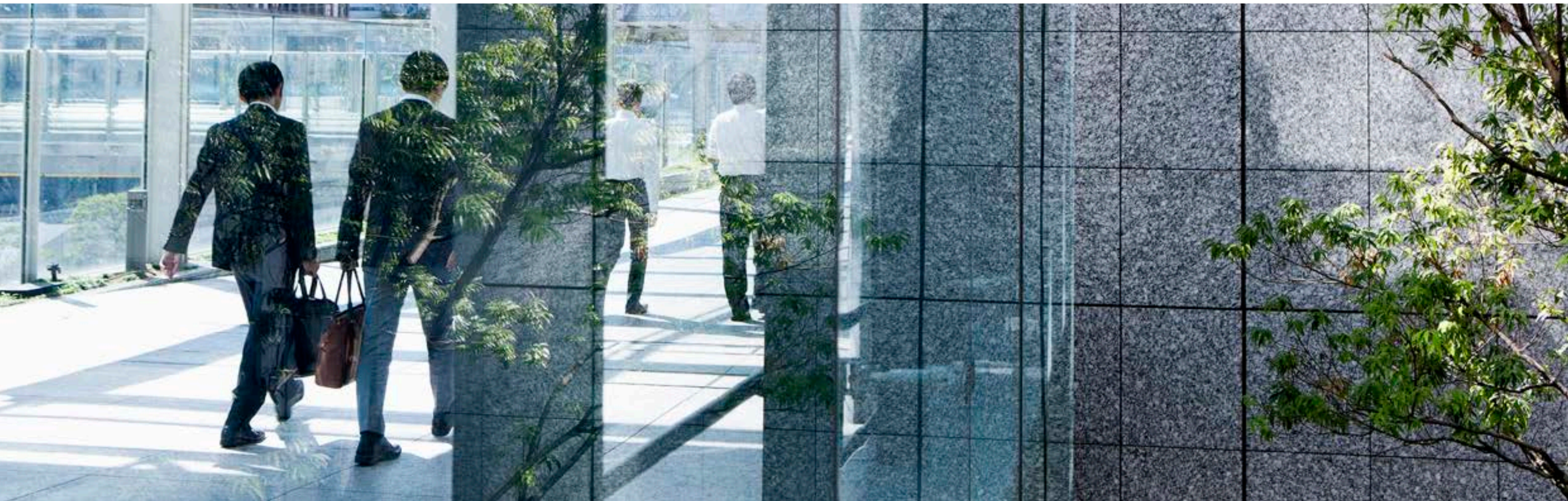
The US is often cited as a model of good governance characterized by a focus on shareholder rights and robust disclosure requirements. The US corporate governance model is, however, far from being a static system. In the past decades, it has undergone significant changes. These changes were spurred by the accounting scandals of the early 2000s and the 2008 financial crisis, which directed significant scrutiny towards public company boards and raised awareness regarding the far-reaching impacts of poor corporate governance. The Covid-19 pandemic, climate change, and the increase in global wealth and income inequality have again dramatically reshaped the corporate governance landscape. Investors have increased their expectations and are using their rights more than ever to hold companies accountable. Against this backdrop, regulators continued to roll out initiatives to reform the corporate governance system to adapt to these new realities.

One major change that was recently rolled out in the US was the Securities and Exchange Commission's (SEC) adoption of new rules requiring that all companies use 'universal proxy cards' for any meetings involving contested elections. The new rules, which apply to shareholder meetings after August 31, 2022, will overhaul the mechanisms by which proxy contests have been carried out in the US thus far. Prior to the amendments, shareholders voting by proxy were unable to 'mix and match' nominees put forward by the incumbent board and the dissident shareholder, as they could if voting in person. These shareholders were therefore faced with a binary choice – to vote either for one slate or the other, resulting in no or sweeping change. The new rules require both the incumbent board and the dissident shareholder to provide shareholders with a slate including the names of all dissident and registrant nominees, allowing shareholders voting by proxy to choose nominees from either side. We welcome this change as it places investors voting in person and by proxy on equal footing.

In a separate initiative, the SEC proposed certain amendments to Rule 14a-8, which governs the process by which shareholder proposals are included in a company's proxy statement. Under this rule, a company may omit a shareholder proposal from its proxy statement if the proposal falls within one of 13 substantive bases for exclusion. The proposed amendments focus in particular on the substantial implementation, duplication, and resubmission of proposals, aiming to "improve the shareholder proposal process and promote consistency." In recent years, the current rules drew criticism over concerns that the existing standards for exclusion were not consistently implemented, thereby leading to unpredictable outcomes. The new rules address these concerns by ensuring a more transparent framework for the rule's application. We support the changes and expressed our position by participating in the public consultation launched by the SEC on the new rules.

Another development we are closely following is the California Gender Board Diversity Law. In May 2022, the California law requiring increased female representation on public company boards headquartered in the state was struck down. The decision came weeks after a court invalidated a bill requiring California-based publicly listed corporations to have board members from underrepresented communities. This outcome prompted concerns that the rulings will stifle future efforts to enact diversity regulations in the US. Despite this, companies continue to face mounting pressure from shareholders to increase diversity in the boardroom. At the same time, the Nasdaq Board Diversity Rules, which became effective in August 2022, signal that the focus on diversity remains ongoing and that companies should continue striving to ensure an adequate level of board diversity.

COMPANIES UNDER ENGAGEMENT



10

Biodiversity

Compagnie Generale des Etablissements Michelin SCA
Mondelez International

Climate Transition of Financial Institutions

Australia & New Zealand Banking Group Ltd.
Bank of America Corp.
Barclays Plc
BNP Paribas SA
Citigroup, Inc.
DBS Group Holdings
HSBC
ING Groep NV
Sumitomo Mitsui Financial Group, Inc.

Lifecycle Management of Mining

Anglo American
BHP Billiton
Fortescue Metals Group Ltd.
Polymetal International Plc

Net Zero Carbon Emissions

Anglo American
ArcelorMittal
Berkshire Hathaway
BHP Billiton
BP
Chevron
Enel
HeidelbergCement AG
Hyundai Motor
Petroleo Brasileiro
Phillips 66
Rio Tinto
Royal Dutch Shell
Saudi Arabian Oil Co.

Sound Environmental Management

Alexandria Real Estate Equities, Inc.
LONGi Green Energy Technology Co Ltd

Digital Innovation in Healthcare

Elevance Health Inc

Diversity and Inclusion

Eli Lilly & Co.
Netflix Inc
Oracle Corp
Taiwan Semiconductor Manufacturing Co. Ltd.
Thermo Fisher Scientific, Inc.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas

Bharat Electronics Ltd.
Booking Holdings, Inc.
HeidelbergCement AG
Inditex

Labor Practices in a Post Covid-19 World

InterContinental Hotels Group Plc
Meituan Dianping
Wal-Mart Stores

Social Impact of Artificial Intelligence

Accenture Plc
Booking Holdings, Inc.
Visa, Inc.

10

Social Impact of Gaming
Activision Blizzard, Inc.
NCsoft Corp.
NetEase.com, Inc.
Tencent Holdings Ltd.

Sound Social Management
Bayerische Motoren Werke
Glencore Plc
Tesco Plc

Corporate Governance in Emerging Markets
Midea Group Co. Ltd.
Samsung Electronics

Corporate Governance Standards in Asia
Hynix Semiconductor, Inc.
INPEX Corp.
Shin-Etsu Chemical Co. Ltd.

Good Governance
DSM
Heineken Holding
Royal Dutch Shell
Unilever

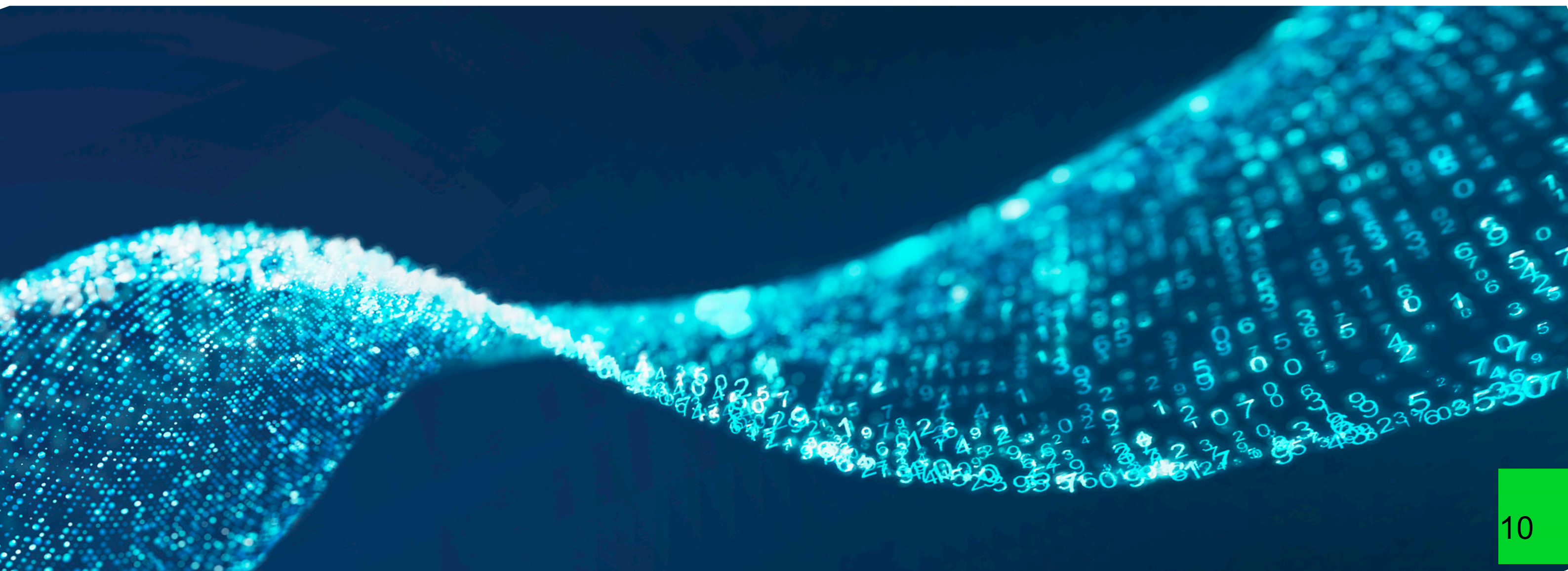
Responsible Executive Remuneration
Booking Holdings, Inc.
Henkel AG & Co. KGaA
Linde Plc
NIKE
Schneider Electric SA
Tesco Plc
Walt Disney

SDG Engagement
Adobe Systems, Inc.
Alphabet, Inc.
Amazon.com, Inc.
Apple
eBay
Electronic Arts, Inc.
Elevance Health Inc
JPMorgan Chase & Co., Inc.
L Oréal
Meta Platforms Inc
Neste Oil Oyj
Novartis
Rio Tinto
Salesforce.com, Inc.
Samsung Electronics
Sony
Total
Union Pacific
United Parcel Service, Inc.

Acceleration to Paris
Anhui Conch Cement Co. Ltd.
Formosa Plastics Corp.
ITOCHU Corp.
Mitsubishi
PetroChina
POSCO
Palm Oil
Wilmar International

Global Controversy Engagement
Currently, 2 companies are under engagement based on potential breaches of the UN Global Compact and/or the OECD Guidelines for Multinational Enterprises.

CODES OF CONDUCTS



10

Robeco's Engagement Policy

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information is available at: https://www.robeco.com/docm/docu-robeco-engagement-policy.pdf

The UN Global Compact

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at: https://www.unglobalcompact.org/

CODES OF CONDUCTS

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at: http://mneguidelines.oecd.org/

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on
- Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices. In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO_2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The Active Ownership team is part of Robeco's Sustainable Investing Center of Expertise headed by Carola van Lamoen. The SI Center of Expertise combines our knowledge and experience on sustainability within the investment domain and drives SI leadership by delivering SI expertise and insights to our clients, our investment teams, the company and the broader market. Furthermore, the Active Ownership team gains input from investment professionals based in local offices of the Robeco around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities. ■

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

More information can be found at:
https://www.robeco.com

10

IMPORTANT INFORMATION

Robeco Institutional Asset Management B.V. (Robeco B.V.) has a license as manager of Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs) ("Fund(s)") from The Netherlands Authority for the Financial Markets in Amsterdam. This document is solely intended for professional investors, defined as investors qualifying as professional clients, who have requested to be treated as professional clients or who are authorized to receive such information under any applicable laws. Robeco B.V and/or its related, affiliated and subsidiary companies, ("Robeco"), will not be liable for any damages arising out of the use of this document. The contents of this document are based upon sources of information believed to be reliable and comes without warranties of any kind. Any opinions, estimates or forecasts may be changed at any time without prior notice and readers are expected to take that into consideration when deciding what weight to apply to the document's contents. This document is intended to be provided to professional investors only for the purpose of imparting market information as interpreted by Robeco. It has not been prepared by Robeco as investment advice or investment research nor should it be interpreted as such and it does not constitute an investment recommendation to buy or sell certain securities or investment products and/or to adopt any investment strategy and/or legal, accounting or tax advice. All rights relating to the information in this document are and will remain the property of Robeco. This material may not be copied or used with the public. No part of this document may be reproduced, or published in any form or by any means without Robeco's prior written permission. Investment involves risks. Before investing, please note the initial capital is not guaranteed. This document is not directed to, nor intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, document, availability or use would be contrary to law or regulation or which would subject Robeco B.V. or its affiliates to any registration or licensing requirement within such jurisdiction.

Additional Information for US investors

This document may be distributed in the US by Robeco Institutional Asset Management US, Inc. ("Robeco US"), an investment adviser registered with the US Securities and Exchange Commission (SEC). Such registration should not be interpreted as an endorsement or approval of Robeco US by the SEC. Robeco B.V. is considered "participating affiliated" and some of their employees are "associated persons" of Robeco US as per relevant SEC no-action guidance. Employees identified as associated persons of Robeco US perform activities directly or indirectly related to the investment advisory services provided by Robeco US. In those situation these individuals are deemed to be acting on behalf of Robeco US. SEC regulations are applicable only to clients, prospects and investors of Robeco US. Robeco US is wholly owned subsidiary of ORIX Corporation Europe N.V. ("ORIX"), a Dutch Investment Management Firm located in Rotterdam, the Netherlands. Robeco US is located at 230 Park Avenue, 33rd floor, New York, NY 10169.

Additional Information for investors with residence or seat in Canada

No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence. Robeco Institutional Asset Management B.V. is relying on the international dealer and international adviser exemption in Quebec and has appointed McCarthy Tétrault LLP as its agent for service in Quebec.

© Q2/2022 Robeco

ROBECO
The Investment Engineers

10

Contact

Robeco
P.O. Box 973
3000 AZ Rotterdam
The Netherlands

T +31 10 224 1 224
I www.robeco.com

1318_BCPP-11'22

MINERVA
ANALYTICS

The Surrey Pension Fund

Voting Report: Q3 2022

10

1. VOTING VOLUMES

This section shows the number of Meetings, Meeting Types & Resolutions voted by the Surrey pension fund.

1.1 MEETINGS

Table 1 below shows that Surrey voted at one meeting during the Quarter under review.

Table 1: Meetings Voted

Region	Meeting Type						
	AGM	EGM	GM	Class	Court	SGM	Total
North America	1	0	0	0	0	0	0
Total	**1**	**0**	**0**	**0**	**0**	**0**	**1**

10

In all tables:

AGM	The Annual General Meeting of shareholders, normally required by law.
EGM	An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extra-ordinary nature. Such business may require a special quorum or approval level.
GM	A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the company in question.
Class	A Class Meeting is held where approval from a specific class of shareholders is required regarding a business item.
Court	A Court Meeting, where shareholders can either order an annual meeting or a special meeting.
SGM	A Special General Meeting of shareholders, where a meeting is required to conduct special business. Often business which requires a special quorum or approval level.

1.2 RESOLUTIONS

Table 2 shows the total number of resolutions voted by region, broken down by meeting type.

In the Quarter under review, the fund was eligible to vote on seven resolutions.

Table 2: Resolutions Voted

Region	Meeting Type						
	AGM	EGM	GM	Class	Court	SGM	Total
North America	7	0	0	0	0	0	7
Total	**7**	**0**	**0**	**0**	**0**	**0**	**7**

1.3 MEETINGS BY MONTH

The table below shows the sole meeting voted at during the Quarter took place in the month of September.

10

Table 3: Meetings Voted Per Month

Event	July	August	September	Total
AGM	0	0	1	1
EGM	0	0	0	0
GM	0	0	0	0
Class	0	0	0	0
Court	0	0	0	0
SGM	0	0	0	0
Total	**0**	**0**	**1**	**1**

2. VOTING PATTERNS

This section analyses some patterns of voting by resolution category and voting policy.

2.1 VOTES AGAINST MANAGEMENT

Table 4 shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the Quarter. Surrey voted against management on 42.86% of the resolutions for which votes were cast during 2022 Q2, which is a higher dissent rate than the proportion of resolutions opposed in the previous three quarters (2022 Q2: 29.36%, Q1: 24.67% 2021 Q4: 25.88%, 2021 Q3: 60.61%).

Board resolutions accounted for 85.71% of all resolutions voted and 66.66% of the total resolutions voted against management. Surrey voted against two management proposed director candidates due to independence concerns.

Surrey voted against the sole resolution voted on in the Audit & Reporting category. The vote concerned the re-appointment of an external auditor and concerns were held with audit tenure and the lack of disclosure regarding a recent tender or planned tender of the audit contract.

Surrey did not vote on any resolutions in the Capital, Corporate Action, Other, Remuneration, Shareholder Rights and Sustainability resolution categories during the period under review.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% Against Management	% All Votes Against Management
Audit & Reporting	1	1	100%	33.33%
Board	6	2	33.33%	66.66%
Capital	0	-	-	-
Corporate Action	0	-	-	-
Other	0	-	-	-
Remuneration	0	-	-	-
Shareholder Rights	0	-	-	-
Sustainability	0	-	-	-
Total	**7**	**3**	**42.86%**	**100.00%**

2.2 DISSENT BY RESOLUTION CATEGORY

Table 5 shows the number of resolutions voted by Surrey, broken down by resolution category, along with Surrey's level of dissent and average general shareholder dissent in each category.

Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 3.92%, Surrey opposed management on 42.86% of resolutions.

Resolutions opposed by Surrey received average general shareholder dissent of 5.98%, a much higher level than the dissent received on resolutions which Surrey supported (2.37%). This highlights that Surrey has a robust policy which is consistent and aligned with other investors governance concerns.

Table 5: Dissent by Resolution Category

Resolution Category	Total Resolutions	% Surrey Against Management	Average Shareholder Dissent %
Audit & Reporting	1	100%	6.03%
Board	6	33.33%	3.56%
Capital	0	-	-
Corporate Action	0	-	-
Other	0	-	-
Remuneration	0	-	-
Shareholder Rights	0	-	-
Sustainability	0	-	-
Total	**7**	**42.86%**	**3.92%**

Poll data was collected for 99.66% of resolutions voted by Surrey during the Quarter.

2.2.1 VOTE OUTCOMES

The UK Corporate Governance Code recommends boards to take action where 20% or more of votes are cast against the board recommendation on a resolution. As such, a shareholder dissent level of 20% is generally considered to be significant. During the Quarter, no resolutions received dissent of 20% of more. This compares to 42 resolutions opposed with high dissent in the previous quarter.

During the Quarter, no resolutions proposed by management were defeated and no shareholder-proposed resolutions were successful. This compares to four defeated management-proposed resolutions and two successful shareholder-proposed resolutions voted on in the previous quarter.

When considering the voting results during the Quarter under review, readers should note that Surrey only voted at one meeting and on seven resolutions during the review period.

10

2.3 RESOLUTION TYPES AND SUB-CATEGORIES

2.3.1 SHAREHOLDER PROPOSED RESOLUTIONS

Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change and often attract relatively high levels of votes against management.

Surrey did not vote on any shareholder-proposed resolutions during the Quarter. In the previous quarter, Surrey voted on 66 resolutions proposed by shareholders.

2.3.2 REMUNERATION

Surrey did not vote on any remuneration resolutions in 2022 Q3.

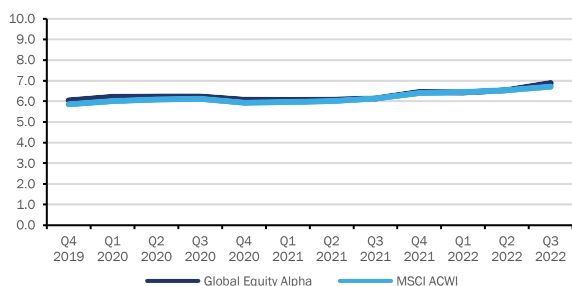
10

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

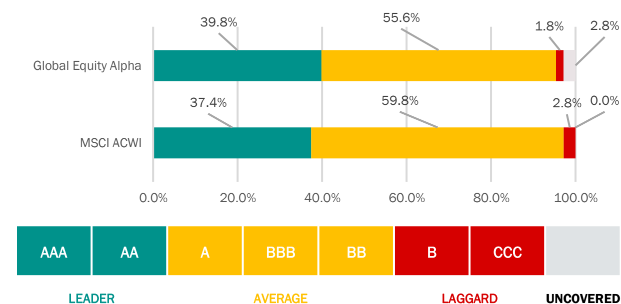
ESG & CARBON REPORT

	Q3 2022 Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Global Equity Alpha	AAA [1]	6.9 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	AAA [1]	6.7 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



10

Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	% Relative Weight	MSCI Rating		% Portfolio Weight	% Relative Weight	MSCI Rating
ASML Holding	2.0%	+1.6%	AAA [1]	Vitesco Technologies Group	1.3%	+1.3%	B [1]
Microsoft Corporation	1.1%	-2.1%	AAA [1]	META Platforms	0.5%	-0.1%	B [1]
Diageo	0.8%	+0.6%	AAA [1]	Airbnb	0.9%	+0.9%	BB [1]
Allianz SE	0.8%	+0.7%	AAA [1]	Berkshire Hathaway	0.8%	+0.1%	BB [1]
AutoDesk	0.7%	+0.6%	AAA [1]	Adient	0.7%	+0.7%	BB [1]

Quarterly ESG Commentary

- Marginal increases in the Weighted ESG score in both the Fund and benchmark saw both increase their rating to 'AAA' over the quarter, this was driven primarily by a strong trend of upgrades over recent periods.
- Upgrades this quarter included several material holdings, including Bank of America, Bayer, Booking Holdings, Adient and Airbnb.

Feature Stock: Adient

Adient is a global leader in auto seating, a consolidated industry, where it holds around a third of the market share. Its major competitor is Lear Corporation whose seating division has consistently earned higher margins than Adient. The long-term valuation case is based on the belief that Adient should be able to achieve seating margins close to Lear's. It has taken some time for the Company to resolve legacy issues and the balance sheet remains a work in progress.

More recently, the pandemic and subsequent auto industry supply chain constraints have also been a delaying factor. The Fund Manager believes the current CEO, Doug Del Grosso, has however been positive for the Company and the current management are the ones to help realise the value in the investment.

More generally, Adient is well-positioned in the auto sector for the electrification transition. Seating is technology agnostic, and the Company has already won significant contracts for the supply of seats for electric vehicles. On climate change, the company was flagged as a laggard by MSCI, and it has responded with policy improvements, including a Sustainability Report for 2021 with reduction targets across scope 1, 2 and 3 emissions and new product design protocol. The Company received an upgrade in its MSCI rating to BB in Q3 2022.

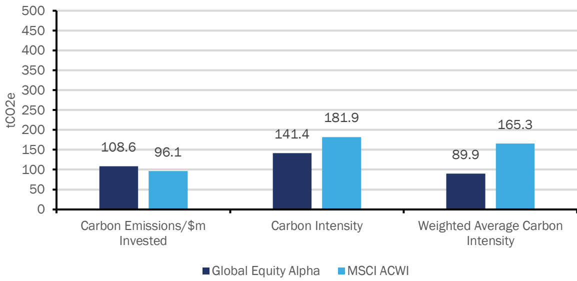
.

[1]Source: MSCI ESG Research 30/09/2022

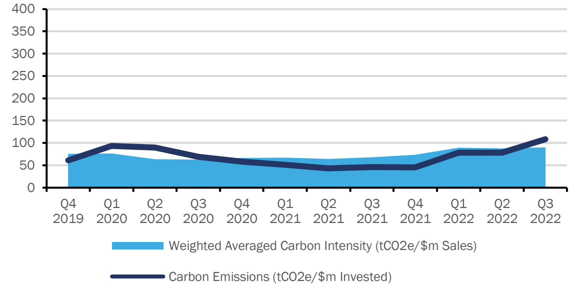
BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

Carbon Emissions and Intensity¹

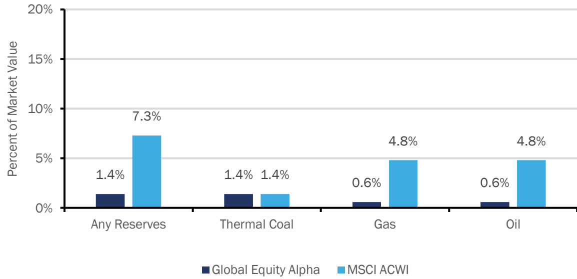


Weighted Average Carbon Intensity Trend¹

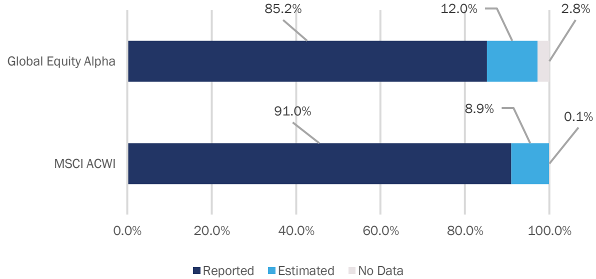


10

Weight of Holdings Owning Fossil Fuel Reserves¹



Availability of Carbon Emissions Data (% of Market Value)¹



Largest Contributors to Weighted Average Carbon Intensity ¹					
	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Holcim	0.6%	+0.5%	26.8% ¹	Yes	4
HeidelbergCement	0.6%	+0.6%	22.6% ¹	Yes	3
Linde	1.0%	+0.7%	14.9% ¹	No	3
EasyJet	0.4%	+0.4%	4.6% ¹	No	3
Jet2	0.5%	+0.5%	3.1% ¹	No	N/A

Quarterly Carbon Commentary

- Carbon metrics saw mixed changes over the period, with Weighted Average Carbon Intensity (WACI) relatively stable, while absolute portfolio emissions increased by c.18% relative to the benchmark.
- The increase was driven by a greater allocation to HeidelbergCement over the period, a company that accounts for c.37% of total portfolio emissions alongside an increasing exposure to aviation.
- Exposure to fossil fuel reserves comes primarily from the Fund's allocation to diversified mining company, Glencore, which represents c.0.8% of the overall Fund.

Feature Stock: Jet2

Jet2 is one of the UK's largest airlines and tour operators, offering package holidays and low-cost airline flights. The Company has robust growth prospects as we continue to emerge from the pandemic and has a history of disrupting more traditional incumbents (for example, Thomas Cook) and achieving impressive returns in a traditionally difficult industry.

Despite having one of the most modern and efficient airline fleets, Jet2 has historically lagged some of its peers in terms of its net zero and carbon strategy. It has sought to address this in recent years, most notably after it released its Net Zero Sustainability Strategy in September 2021. CO2 per passenger kilometre fell 19% between 2011 and 2020 through measures such as fleet modernisation, aircraft modifications and operational adjustments. The Company is aiming for net zero by 2050 at the latest. Recognising that aviation is a hard-to-abate sector, in 2022 the Company launched a carbon offset scheme, and has committed to reporting annually on its targets. Finally, the Company is lobbying for government measures on support for sustainable aviation fuel and air traffic measures which Jet2 believe could reduce emissions by 10%.

¹Source: MSCI ESG Research 30/09/2022

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
company not covered	1.4%	1.4%
Investment Trust/ Funds	1.4%	1.4%

[1]Source: MSCI ESG Research 30/06/2022

Important Information

The material in this report has been prepared by Border to Coast Pensions Partnership Limited ("Border to Coast") and is designed for the use of professional investors and provides investor information about this fund. The MSCI ESG Fund Ratings and material in this document are for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. There is no assurance that any socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Border to Coast accepts no liability for any loss or damage arising from any use of, or reliance on, any information provided in this document. Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).

Although Border to Coast information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use*, may not be reproduced or re-disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2022 *Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.*

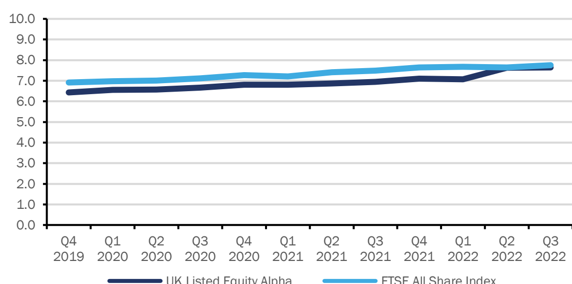
This page is intentionally left blank

BORDER TO COAST UK LISTED EQUITY ALPHA FUND

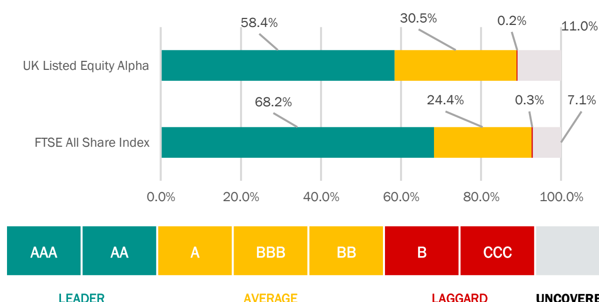
ESG & CARBON REPORT

	Q3 2022 Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark	(green)	Fund has an equal or better *Weighted ESG Score* than the benchmark.
UK Listed Equity Alpha	AAA [1]	7.7 [1]	(amber)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
FTSE All Share Index	AAA [1]	7.8 [1]		(red)	Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



10

Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Diageo	3.8%	-0.3%	AAA [1]
Burberry Group	3.6%	+3.3%	AAA [1]
Relx	2.4%	+0.5%	AAA [1]
The Sage Group	1.9%	+1.6%	AAA [1]
Schroders	1.8%	+1.7%	AAA [1]

Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Alphawave IP Group	0.1%	+0.1%	CCC [1]
Young & Co's Brewery	0.1%	+0.1%	B [1]
Hargreaves Lansdown	3.0%	+2.8%	BB [1]
FeverTree Drinks	1.8%	+1.8%	BB [1]
Lancashire Holdings	0.6%	+0.6%	BB [1]

Quarterly ESG Commentary

- The Fund remains broadly in line with the benchmark on a weighted ESG scoring basis, despite holding fewer companies categorised as 'Leaders'.
- The position from an overall ESG scoring and rating perspective was relatively stable over the quarter, following a major restructure of the Fund during the prior period.

Feature Stock: Lancashire Holdings

Lancashire Holdings is a global specialty insurer, focused on property, aviation, marine and energy. Since formation in 2005, the underwriting record has been strong, and the management team have demonstrated capital discipline by returning excess cash when they cannot use it to generate acceptable returns. They believe that after years of falling prices, greater discipline is now being forced upon the insurance market as industry losses have mounted, and the Company is beginning to write more business with more favourable economics.

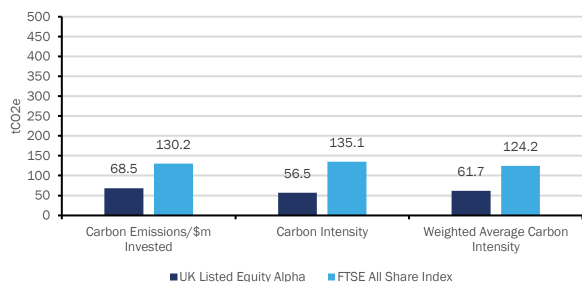
Owing to the areas it primarily focuses on, climate change vulnerability is the primary risk. Lancashire Holdings has taken steps to mitigate this through its membership of ClimateWise (an insurance industry collaboration focused on driving action on climate change) and its commitment to moving its own operations from carbon neutral to net-zero by 2050. This specifically focuses on actively reducing the amount of emissions generated as opposed to the use of offsets. The Company is compliant with the UN Global Compact, which encourages businesses to adopt sustainable practices and to report on their implementation. ESG and carbon intensity analytics are being developed for the Company's investment portfolio, which is consistent with wider work across the industry and a key step in taking action to manage climate risk.

[1]Source: MSCI ESG Research 30/09/2022

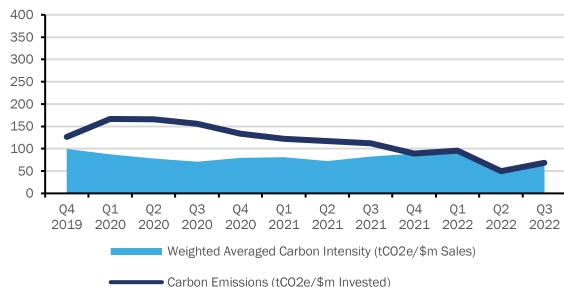
BORDER TO COAST UK LISTED EQUITY ALPHA FUND

ESG & CARBON REPORT

Carbon Emissions and Intensity[1]

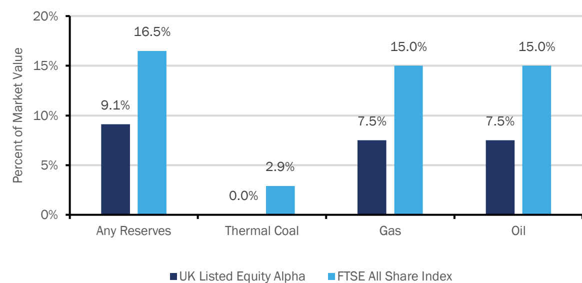


Weighted Average Carbon Intensity Trend[1]

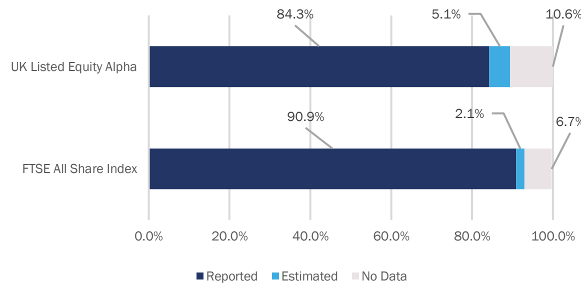


10

Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Weighted Average Carbon Intensity [1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Shell	2.4%	-5.3%	17.2% [1]	Yes	4
BP	2.9%	-0.9%	13.3% [1]	Yes	4*
Anglo American	1.7%	+0.1%	11.0% [1]	Yes	4*
EasyJet	0.5%	+0.5%	10.5% [1]	No	3
Rio Tinto	0.9%	-1.6%	8.3% [1]	Yes	4

Quarterly Carbon Commentary

- Carbon metrics remain materially below those of the benchmark, however a rise in the absolute numbers was seen for both the Fund and benchmark over the quarter.
- An update to BP's carbon emissions figure during the quarter was the primary contributor to the Fund metrics ticking upwards. BP, along with Shell remain the largest contributors to fossil fuel reserves and both companies are underweight positions relative to the benchmark.

Feature Stock: Anglo American

Anglo American is a diversified mining company, operating worldwide. The Company's profits are primarily driven by the prices of iron ore, copper and diamonds and demand for each of these commodities has been strong. In the last few years, the Company's operations have been strengthened significantly and the balance sheet is now more robust.

Mining operations are energy-intensive and generate significant direct greenhouse gas (GHG) emissions, including carbon dioxide from fuel used during mining, ore processing, and smelting activities. It should be remembered that the world cannot decarbonise without many of the metals and minerals that the Company produce. While regulatory efforts to reduce GHG emissions in response to the risks posed by climate change may result in additional regulatory compliance costs, the Company aims to be carbon neutral across its own operations and reduce scope 3 emissions by 50% by 2040.

[1]Source: MSCI ESG Research 30/09/2022

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	7.5%	7.1%
Investment Trust/ Funds	3.5%	3.5%

[1]Source: MSCI ESG Research 30/09/2022

Important Information

The material in this report has been prepared by Border to Coast Pensions Partnership Limited ("Border to Coast") and is designed for the use of professional investors and provides investor information about this fund. The MSCI ESG Fund Ratings and material in this document are for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. There is no assurance that any socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Border to Coast accepts no liability for any loss or damage arising from any use of, or reliance on, any information provided in this document. Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).

Although Border to Coast information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use*, may not be reproduced or re-disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2022 *Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.*

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **CASH FLOW REVIEW**

SUMMARY OF ISSUE:

Understanding the cash flow position of the Fund is vital regarding management and allocation of the assets such that pensions can be paid.

RECOMMENDATIONS:

It is recommended that:

1) The Committee note the Fund's current and projected cash flow position.

2) Approve an annual review of the cash flow position given heightened uncertainty related to inflation expectations.

3) Note the operational decision to utilise income from CBRE and initiate the income withdrawal plan for the Multi-Asset Credit (MAC) Fund to support the cash flow position.

4) The Local Pension Board (LPB) be tasked with reviewing the impact of inflation on cash flows and the entry within the Risk Register.

11

REASON FOR RECOMMENDATIONS:

Knowing when the Fund is likely to become cash flow negative is helpful as it can have implications for both the funding and investment strategy:

- Having adequate cash available to meet the Fund's primary objective of paying member benefits
- The ability to maintain stable contributions over time and withstand volatility from investment markets
- Understanding the level of cash balance that needs to be retained while avoiding a drag on investment returns
- Avoiding the risk of being a forced seller of assets at inopportune times
- Making the most efficient use of income generated by Fund assets
- Implementing optimum rebalancing and cash management policies

DETAILS:

Background

1. The Fund's cash flow position is reviewed periodically. The current review was instigated by officers due to the increased inflation within the UK

economy and the potential impact this could have on the amount paid out by the Fund in pension benefits.

2. At present, the Fund is cash flow positive, the amount paid out in pension benefits is less than the amount received in contributions.

3. Hymans Robertson have reviewed the cash flow projections of the Fund. Their report is in Annexe 1.

4. Using data as at 31 March 2022 with the exclusion of investment income, and also ignoring the effect of transfers, the baseline projection shows the Fund is likely to be cash flow negative by 2029. This allows for an expected pension increase of 10.1% in April 2023 and inflation thereafter in line with the median Hymans Robertson economic scenario service CPI assumption.

5. After consulting with officers, adjustments to the projections were requested from Hymans. These are shown on page 17 of Annexe 1 and include the calibration of benefit payments, current CPI expectations, and prepayment assumptions to reflect recent behaviours.

6. The combined effect of these adjustments suggests the Fund could be cashflow negative over the 2023 to 2026 period.

11

7. Mercer have reviewed the investment position given the information above. Their report is in Annexe 2. There is a healthy level of income potential from the assets, estimated at £180m p.a. in future. This will allow significant flexibility as to how the Fund invests over the long-term.

8. Given the inherent uncertainty in some of the assumptions, not least CPI, the Fund will start to take income from CBRE and the MAC Fund through the income withdrawal plan.

Commentary on the impact of inflation

9. LGPS benefits (including pensions in payment, deferred pensions and CARE benefits accrued by active members) are increased in April each year in line with the change in the Consumer Prices Inflation (CPI) Index over the 12 months to the previous September. Because of this, the CPI assumption used to value the liabilities is one of the key valuation assumptions.

   This assumption affects the projection of pension benefits into the future. As such, there is a simple relationship between the CPI assumption and the value of the liabilities – a higher CPI assumption leads to a higher value of the liabilities (and vice versa).

   LGPS benefits are expected to be increased by 10.1% in April 2023. This is a higher increase compared to recent years and is a key driver of the changing net cashflow position (ie leading to benefit outgo being greater than contribution income).

   For valuation purposes, the Actuary is required to set a single assumption for future CPI. The single assumption set at the 2022 valuation, of 2.7% pa, is based on an average of future CPI expectations over the next 20 years and, crucially, this recognises the expectation of very high CPI in the short term.

The CPI assumption is used to set the salary growth assumption at the 2022 valuation. Specifically, it is assumed the salaries grow at the rate of 3.7% pa, which is equal to the CPI assumption plus 1% pa. This is broadly in line with historic pay growth in the public sector.

For the purpose of the cash flow projections prepared by the Fund Actuary, the CPI assumption recognises the future shape of CPI expectations rather than adopt a single future CPI assumption of 2.7% (as is required for valuation purposes). The projections allow for higher CPI in the short term, in particular, the 10.1% increase expected to apply in April 2023 and lower CPI expectations in the long term. This leads to a much more realistic projection of short-term benefit outgo.

The inflation scenarios set out in pages 26-30 of Annexe 1 provide an indication of the impact of higher and lower long-term CPI (compared to the 'best estimate' baseline position). For example, higher CPI for a prolonged period of time (ie the stagflation scenario) would create a significant challenge for the Fund in meeting benefit outgo and this may necessitate a significant increase in the income generated from the Fund's assets.

CONSULTATION:

10. The Chair of the Pension Fund has been consulted on the report.

11

RISK MANAGEMENT AND IMPLICATIONS:

11. Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

12. Financial and value for money implications are contained within the report.

DIRECTOR OF CORPORATE FINANCE & COMMERCIAL COMMENTARY

13. The Director of Corporate Finance & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered.

LEGAL IMPLICATIONS – MONITORING OFFICER

14. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

15. The review of the Fund's investment programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

16. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

17. The following next steps are planned:

    a. Continued monitoring of cash flow position with a report to be brought to the committee on an annual basis

---

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:
1. Cash Flow Analysis by Hymans Robertson – Annexe 1
2. Cash Flow Analysis by Mercer – Annexe 2

Sources/background papers:

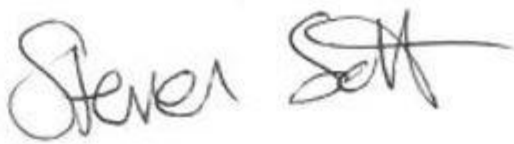
11

HYMANS ROBERTSON

Surrey Pension Fund

Page 245

Cashflow projections



Steven Scott FFA

02 December 2022
For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP is authorised and
regulated by the Financial Conduct Authority

Use the menu bar above to navigate to each section.

Contents and version history

In this report:

	Page
Executive summary	3
Background and inputs	4
Projections	11
Baseline	*12 – 15*
Adjustments	*17 – 25*
Scenarios	*26 – 30*
Next steps	31
Reliances and limitations	33

Version	Date issued	Revisions
1	21 October 2022	
2	7 November 2022	Cashflows calibrated to allow for recent benefits payments Include a scenario based on current inflation expectations from the ESS Include a scenario allowing for prepayments
3	2 December 2022	To include alternate inflation scenarios (recession and stagflation)

Executive summary

This paper is addressed to Surrey County Council as the Administering Authority to the Surrey Pension Fund ("the Fund"). The paper considers different future projections of the Fund's cashflows under our central projection for CPI. The analysis and projections will help the Fund better understand its current and potential future cashflow position and is part of its management of risk in this area.

From the analysis and projections set out in this paper, the following conclusions can be drawn:

- In the absence of investment income, and ignoring the effect of transfers, the Fund is likely to be cashflow negative by 2029. This allows for an expected pension increase of 10.1% in April 2023 and inflation thereafter is in line with the median ESS CPI assumption

Further analysis may be required to identify the effect of the following on the net cashflow position:

- Reductions to active membership, or increased take up of the 50:50 option.
- Changes in employer contribution rates following the 2022 valuation

HYMANS # ROBERTSON

Background and inputs

What is cashflow negativity and does it matter?

Every month, the Fund receives income via contributions and pays out benefits to members. Historically, the benefits have been paid out of the contribution income with any excess being invested. This is how the Fund's asset value has built up over time (along with investment returns).

Over time a pension fund will mature and the level of benefit payments will start to exceed contribution income. At this point, a pension fund is considered "cashflow negative".

Being cashflow negative itself is not unexpected for a pension fund; the assets that have been accrued are for the purpose of paying benefits. However, if the transition to being cashflow negative is not monitored and managed effectively, it can pose a liquidity risk and the Fund may become a forced seller of assets.

At the 2022 valuation, the focus on cashflow is greater given the likely significant increase in benefits at April 2023 due to rising inflation.

Knowing when the Fund is likely to become cash flow negative is helpful as it can have implications for both the funding and investment strategy:

- Having cash available to meet the Fund's primary objective of paying member benefits
- The ability to maintain stable contributions over time and withstand volatility from investment markets
- Understanding the level of cash balance that needs to be retained while avoiding a drag on investment returns
- Avoiding the risk of being a forced seller of assets at inopportune times
- Making the most efficient use of income generated by Fund assets
- Implementing optimum rebalancing and cash management policies

This paper explores the Fund's cashflow position to inform the approach to cashflow management

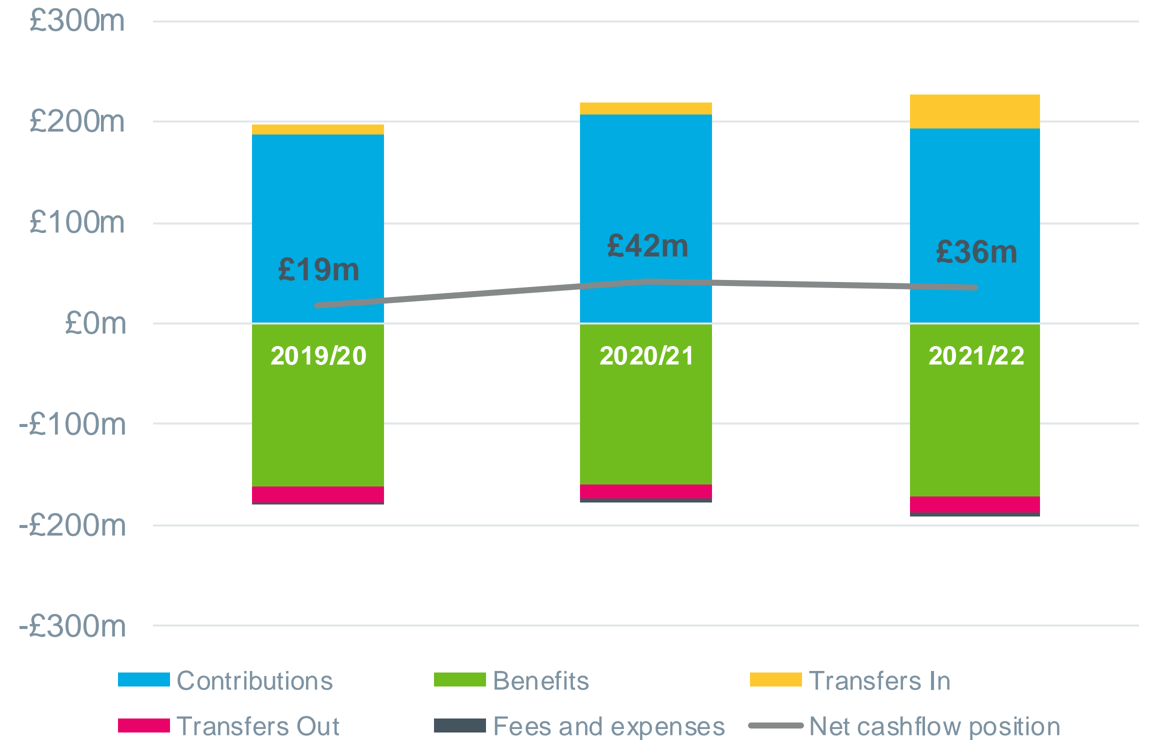
Recent cashflow position

Using the annual report and accounts for 2019/20, 2020/21 and 2021/22, we have analysed the recent cashflow position for the Fund.

The chart shows the absolute value of contribution income and benefit outgo (bars) and the net cashflow position (line and figures provided).

During this period, the Fund remained cashflow positive, ie income exceed outgo. The following observations can be made from this analysis:

- Transfers in and out of the fund can significantly affect the cashflow position. In 2021/22, there were c. £33m of transfers into the Fund which helped increase the net cashflow position.
- Prepayments can distort the net cashflow position over short periods. Contribution income (blue bar) spiked in 2020/21 due to prepayments made by employers. Contributions in 21/22 (and 22/23) will be lower as a result.
- Benefit payments (green bars) are expected to rise each year due to new pensions coming into payment and benefit increases. This can be distorted by the payment of retirement lump sums (e.g. retirement lump sums were highest in 2019/20 which lead to only a small increase in benefit outgo the next year (2020/21).



The cashflow position has remained positive in recent years.

What are the cashflows of the Fund

In this paper we consider the main cashflows in and out of the Fund over the next 20 years.

The Fund's primary sources of income are:

- Contributions from employers in the Fund
- Contributions from employee members in the Fund
- Income streams generated from the Fund's investments (NB these are not included in the cashflow projections we have provided)

Contributions paid are estimated based on:

- The 2022 valuation payroll
- The 2022/23 contribution rates currently in payment (which average 6.7% for employees and 22.1% of pay for employers)
- The aggregate of all proposed employer contribution rates payable from 1 April 2023 to 31 March 2026. Thereafter the contribution rate has been assumed to remain stable up to year 20.

The Fund's outflows are the benefits payable to the members and their dependants. These include:

- Retirement lump sums paid to active and deferred members on retirement
- Retirement pensions paid to pensioners and their dependents
- Death in service benefits and ill health benefits.

Transfers in and out of the Fund by individual members are difficult to estimate accurately and are expected to balance out over time.

The projected cashflows are sensitive to a number of assumptions. The most significant are:

- Level of future benefit increases (all LGPS benefits are index-linked and increase in line with Consumer Price Index (CPI) inflation)
- Level of current and future payroll (determines the amount of contributions received)

Data, assumptions and methodology

Membership data

We have used the membership data provided for the 2022 valuation of the Fund.

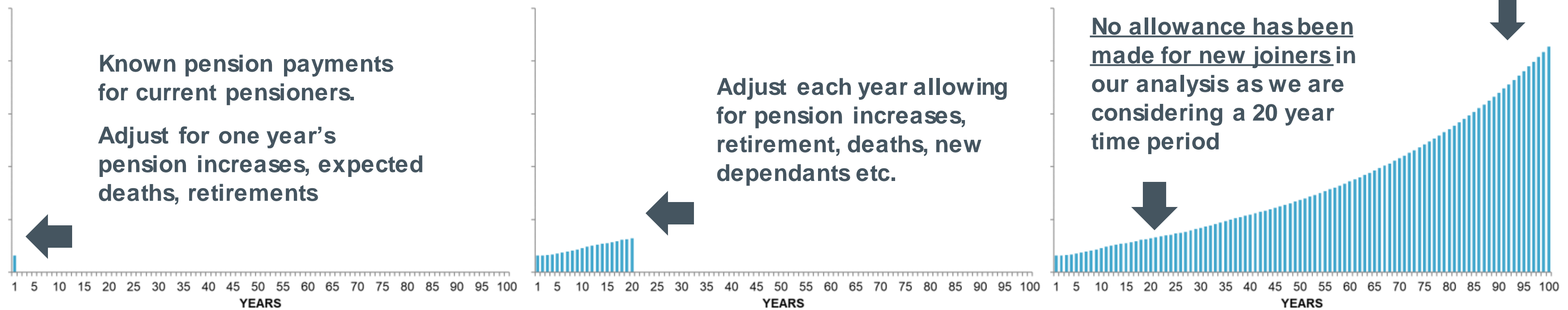
Assumptions

The demographic and financial assumptions are in line with those adopted for the 2022 valuation of the Fund unless stated otherwise.

Further information on the membership data and assumptions is detailed in the 2022 valuation initial results report dated 14 October 2022.

Allowance for benefit outgo in respect of benefits yet to be accrued by current active members is included in the projection, however, given the relative short timeframe considered, no allowance has been made for benefit outgo in respect of accrual by members yet to join the scheme.

Methodology: how we project benefit payments



Methodology: projecting contribution income

- Payroll is assumed to stay constant in real terms, ie it increases in line with the valuation assumption of 3.7% pa
- Employer contributions are assumed to be in line with the pattern set out on page 7
- Employee contributions are based on the weighted average for the Fund at the 2022 valuation (c. 6.7% of pay).

Projected future CPI - Baseline

Future CPI inflation

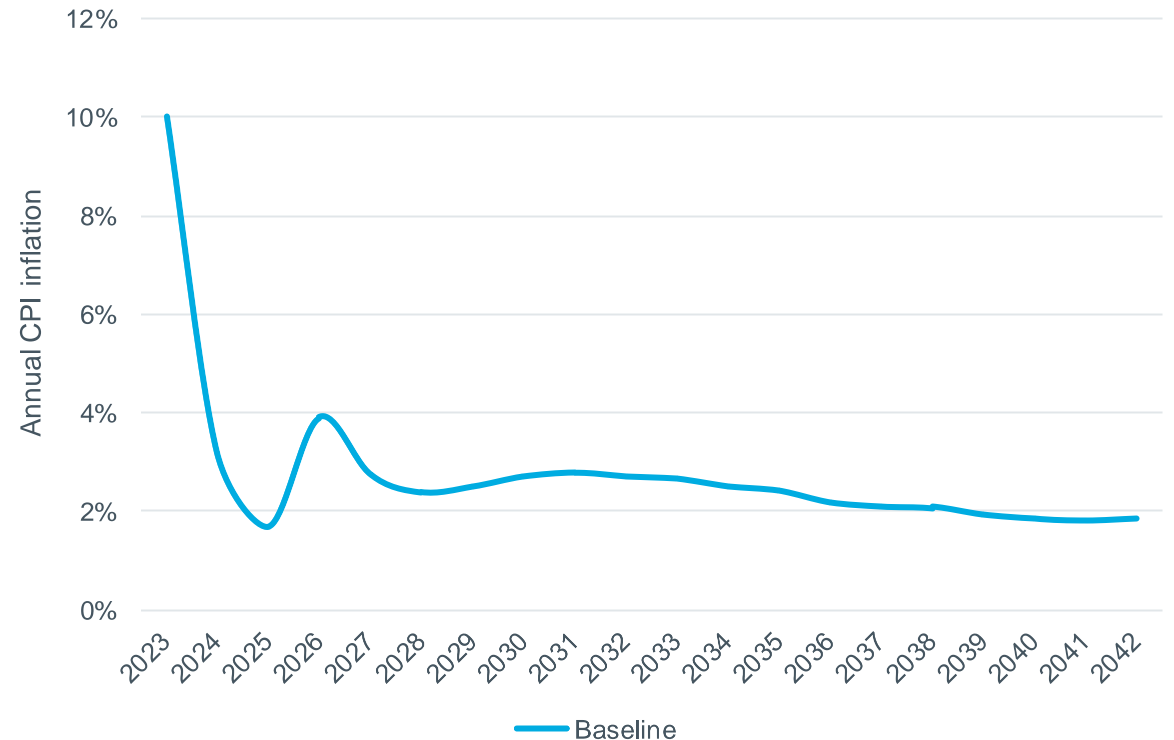
The 2022 valuation CPI assumption, set for the purpose of measuring the funding level as at 31 March 2022 is 2.7% per annum.

This is set as an average of median future inflation expectations from the Hymans Robertson economic scenario service (ESS). The ESS model projection of median CPI expectations recognises the market's view of CPI inflation in the short term and, specifically, the expectation of a short term spike in CPI.

For the purpose of the cashflow projection, we have projected benefit outflows allowing for the median projection of CPI from the ESS model as at 31 March 2022. In addition to this, the 2023 pension increase order is expected to be 10.1% (CPI over the 12 months to September 2022), which is higher than the ESS year one CPI projection as at 31 March 2022. The CPI projection has been updated to allow for a year one CPI of 10.1%.

This CPI projection is illustrated in the chart shown.

The effect of projecting the cashflows using this adjusted CPI assumption (relative to the cashflows projection shown in the initial valuation report) is shown in the next page.



Effect of applying the time dependent CPI assumption

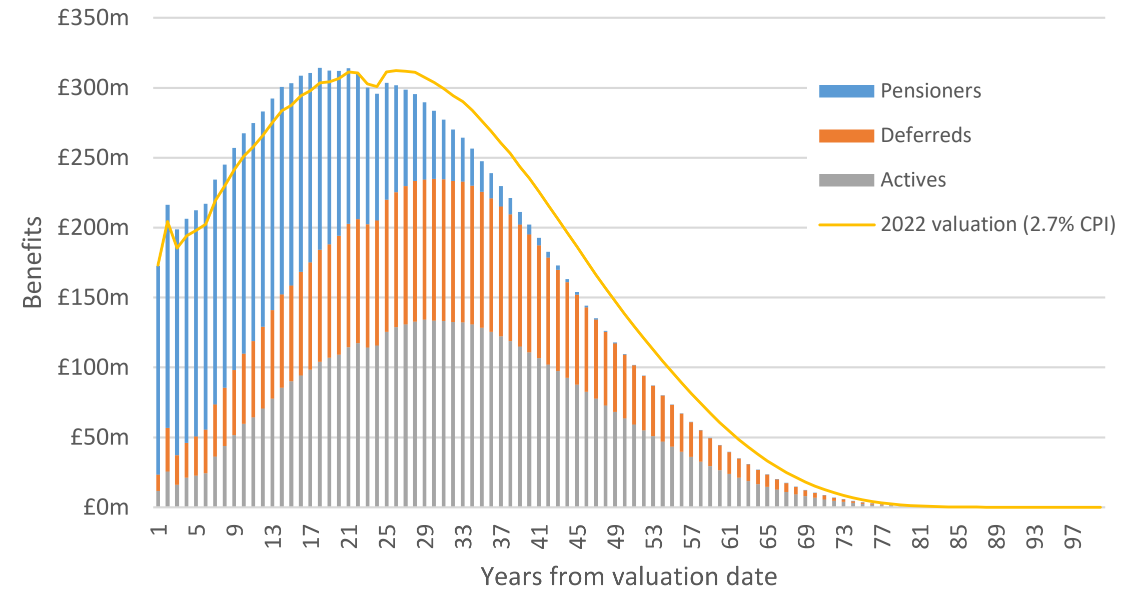
Page 13 of the 2022 valuation initial results report shows the projection of past service benefit outflows from 31 March 2022 valuation (based on a CPI assumption of 2.7% pa).

The adjustments made to CPI (as described in the previous page) are designed to generate a benefit projection that better reflects the expectation of higher CPI in the short term. This approach is used when we calculate contribution rates at the valuation (a flat assumption is appropriate for deriving the reported funding position).

The chart on the right hand side shows the revised benefit projection based on the adjusted projection of CPI. The yellow line shows the projection of total past service benefit outgo based on the 2022 valuation assumptions (from the initial results report). The effect of applying the adjusted CPI assumption is that:

- Benefit outflow over the next 20 years is higher than the valuation projection, however,
- In the longer term, benefits projected using the median CPI projection from the ESS model are lower than those projected based on the 2022 valuation CPI assumption (2.7% per annum). This is because 2.7% is an average of future median ESS CPI (and higher CPI in the short term means lower CPI in the long term)

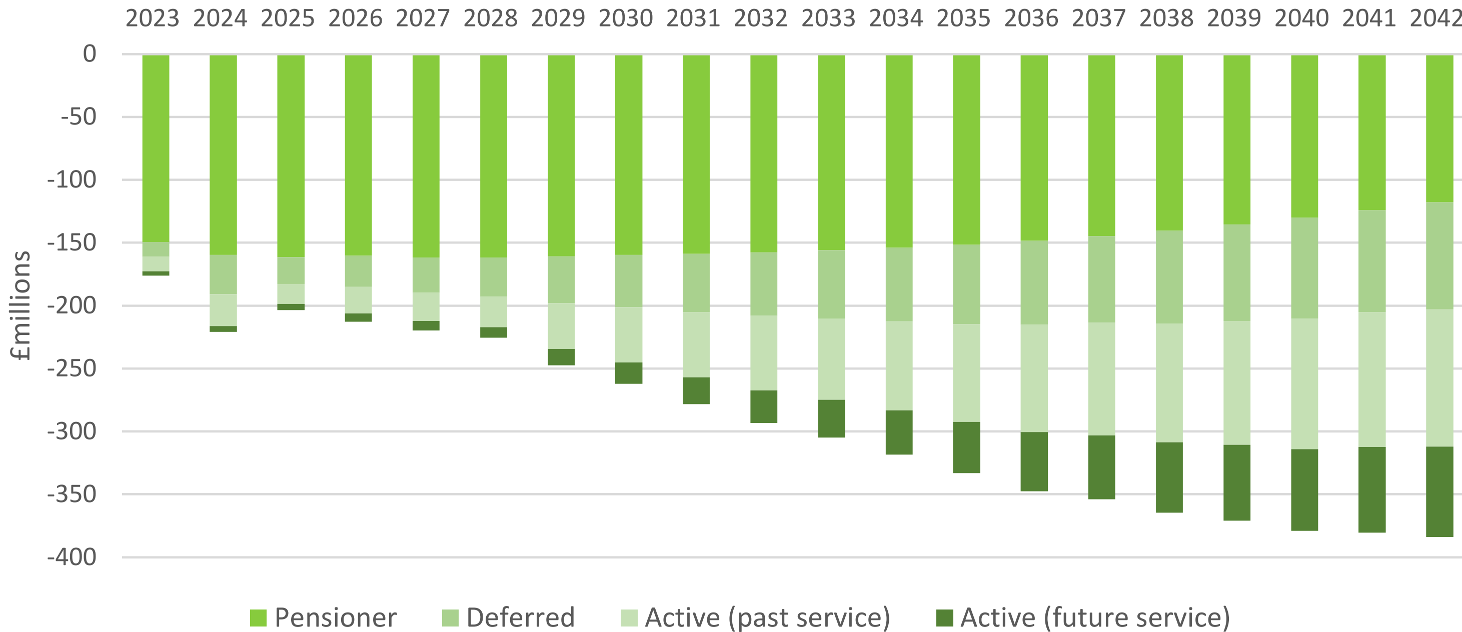
It should be noted that the present value of future benefits (i.e. the liabilities) under the median projection of CPI are broadly equal to the value of the liabilities at the 2022 valuation (i.e. based on a flat CPI assumption of 2.7% pa).



HYMANS # ROBERTSON

Projections - baseline

Projected benefit outflows



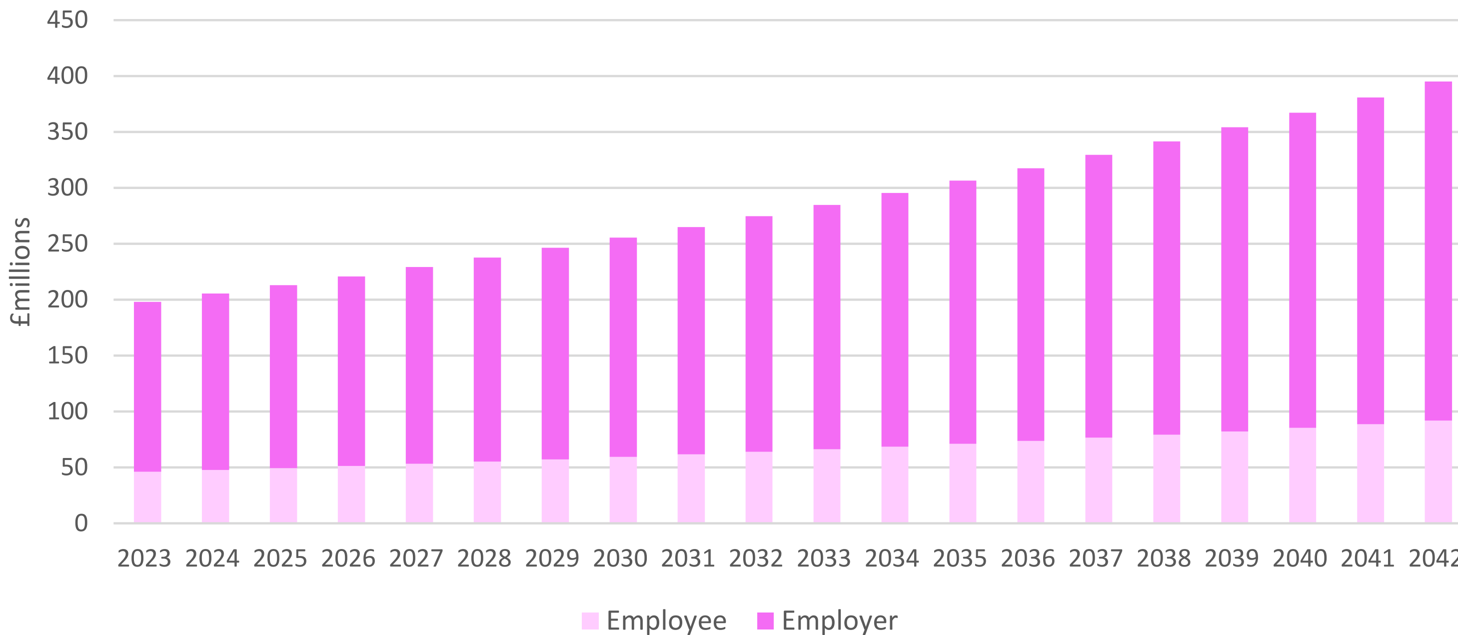
Notes

The stepped increase in benefit outflow in 2024 (year 2) is as a consequence of the model assumption that all active members already past their assumed retirement age will retire +1 year after the valuation date. In reality these outflows would be spread across a longer period.

The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

The Fund currently pays around £165m in benefit payments. This is expected to double by 2035.

Projected contribution income



Notes

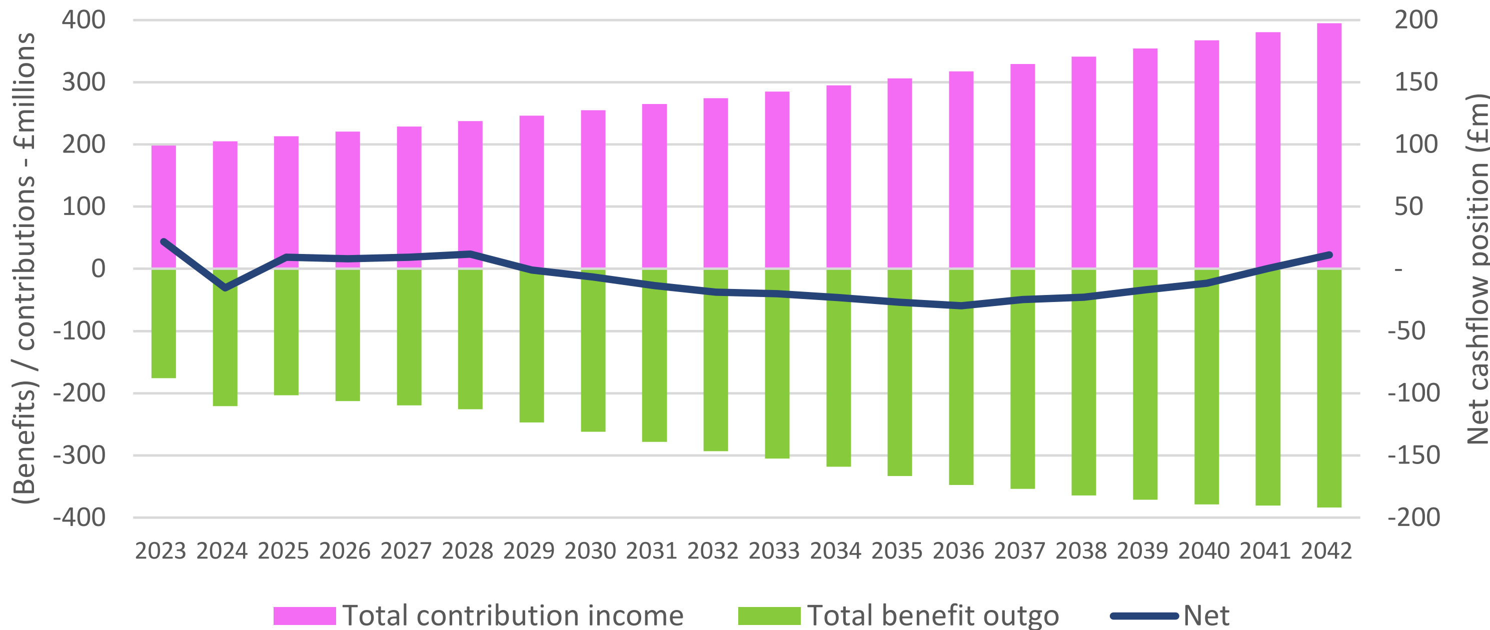
New entrants are implicitly allowed for in the income cashflow by assuming the payroll grows with inflation.

The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

No allowance has been made in the contribution projection for any prepayment of employer contributions (in the 2022/23 year and in the projection from 1 April 2023).

Payroll is assumed to increase at 3.4% pa (in line with the formal valuation)

Projected net cashflow



Notes

Contributions are projected to exceed benefit outgo until around 2028/29.

The projection shows that benefit outgo may exceed contribution income in 2023/24 if all active members at the 2022 valuation who are over pension age choose to retire in that year. This is an assumption underlying the modelling (see page 12). In reality these retirements are likely to be spread over the next 2-3 years which would reduce the spike and the Fund is unlikely to be cashflow negative in 2023/24.

Benefit outgo is projected to rise significantly in the 2023/34 year (due to an expectation of a pension increase order of 10.1%).

The net position in projected to become positive again around 2041, however, note that the longer the projection period, the less reliable the cashflow projection becomes.

In the absence of investment income, and ignoring of transfers, benefit outflow is estimated to exceed contribution income by 2029.

Assets are assumed to increase at 4.3% pa

Projections provided - baseline

An excel spreadsheet containing the **baseline** cashflows projection over the next 20 years has been provided alongside this report.

A projection period of 20 years have been set as the projection of benefits and outflows beyond this time period can be unreliable.

The projected contribution income has been split between each of the major employers (i.e. those employers with stabilised contribution rates) and all 'other' employers. This will allow adjustments to be made to allow for prepayments and possible changes to the contributions payable by these major employers following the 2022 valuation. For the avoidance of doubt, the projection of contributions is based on the major employers continuing to pay the current effective total rate, as defined in our report "2022 valuation strategy review for long term secure employers" dated 23 August 2022. Following initial discussions with the major employers, I understand that contribution rates may fall from 1 April 2023. If so, this would necessitate a revision to the cashflow projections provided.

Included in the excel file are three tabs:

- **Surrey_WF_Outflows** – a projection of expected benefit outgo over the next 20 years based on the method and assumptions set out in this report and split between actives (past and future services), deferreds and pensioners (status as at 31 March 2022).
- **Surrey_WF_Inflows** – a projection of expected contribution income over the next 20 years based on the method and assumptions set out in this report and split between employer (major employers, and others), and employee contributions
- **Surrey_Net position** – the projection of total income and outgo over the next 20 years and the net position.

Year 1 in the projections is the 2022/23 year (i.e. from 1 April 2022 to 31 March 2023).

Neither myself, nor Hymns Robertson, accept any responsibility for any adjustments applied to the cashflow projections we have provided. I would expect the Fund to request a revised cashflow projection from me if any adjustments are required.

HYMANS # ROBERTSON

Projections - adjustments

Adjustments

Following initial discussions with the Fund based on version 1 of this report, adjustments to the projections were requested.

- **Calibrate to allow for recent benefits payments.** The Fund advised that benefit outgo in 2022/23 has been slightly higher than that estimated over 2022/23 in version 1 of the analysis. This is likely to be due to our assumption that all members over retirement age at the 2022 valuation date are assumed to retire exactly one year after the valuation date (which explains the spike in benefit outgo in year 2).

  The benefit projection will be adjusted to spread excess outgo in year 2 across the first two years (split 70% of the excess in year 1 and 30% of the excess in year 2).

- **CPI expectations.** Current short term CPI expectations are slightly higher than that expected as at 31 March 2022.

  The benefit projection will be updated to allow for current CPI expectations

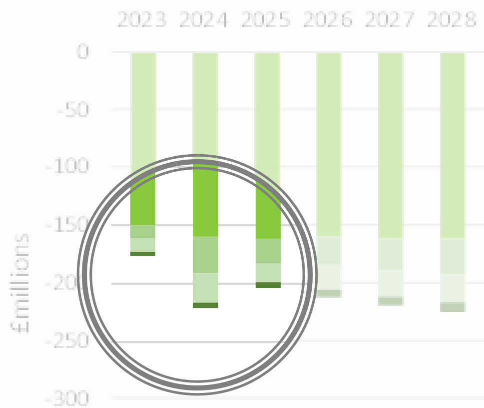
- **Prepayments.** Some employers may wish to prepay monetary contributions due over the 2023/26 period.

  Show the effect of prepayments at a similar level to those made following the 2019 valuation.

Adjusting short term cashflows

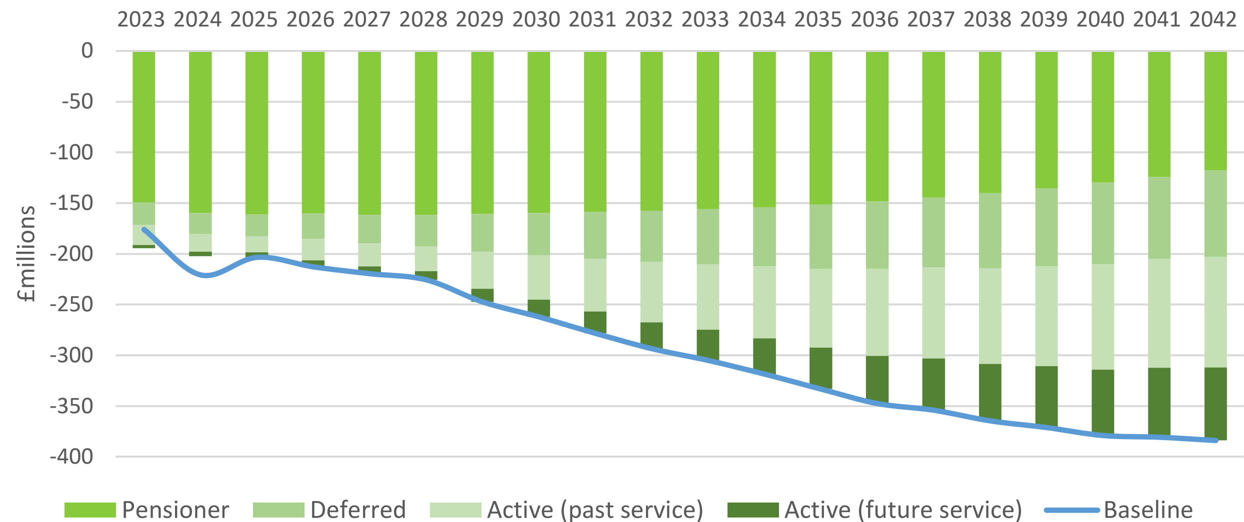
Stepped increase in year 2

The stepped increase in benefit outflow in 2024 (year 2) is as a consequence of the model assumption that all active members already past their assumed retirement age will retire +1 year after the valuation date. In reality these outflows may be spread.



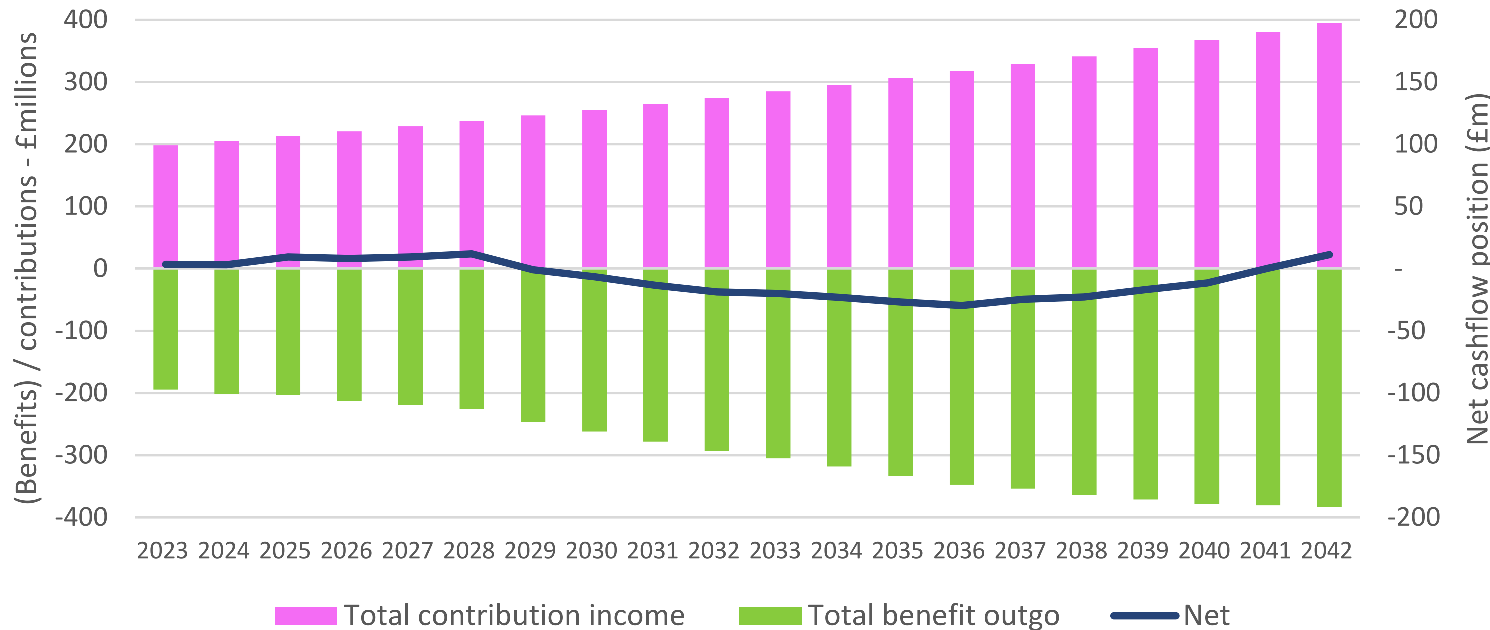
Smooth experience

The excess benefit outflow in year 2 has been estimated and then spread over years 1 and 2. 70% of the excess has been added to year 1 benefit outgo and 30% of the excess has been added to the adjusted (removal of the estimated excess) year 2 benefit outgo. The resulting benefit projection is shown below (with the blue line reflecting the baseline projection shown on page 12).



HYMANS ROBERTSON

Projected net cashflow (short term benefit smoothing)



Notes

The effect of smoothing the short term benefit outflows in respect of members yet to retire, is shown in the chart.

Contributions are projected to exceed benefit outgo until around 2028/29 (as per the baseline on page 14).

The effect of benefit smoothing is that outgo is no longer projected to exceed contribution income in 2023/24, however the Fund is expected to be broadly cashflow neutral over the next two years.

Benefit outgo is projected to rise significantly in the 2023/34 year (due to an expectation of a pension increase order of 10.1%) – this is less evident in this projection due to the assumption that 70% of those over retirement age (as at the 2022 valuation) retire in 2022/23.

Contribution income is estimated to slightly higher than benefit outgo until 2028/29

September CPI expectation as at 30 September 2022

Future CPI inflation

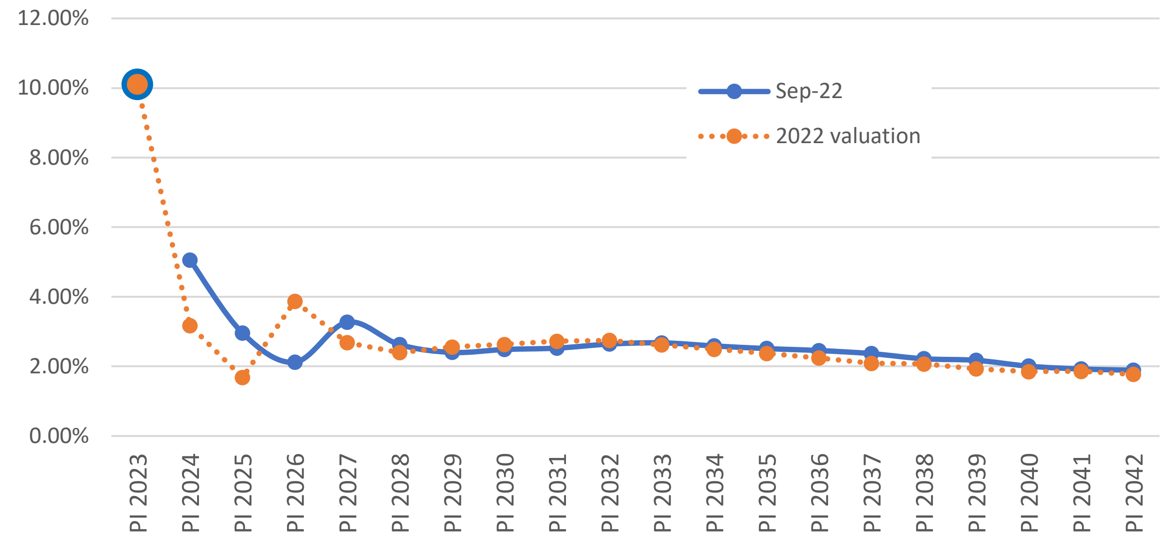
Since 31 March 2022, the change in CPI over the 12 months to September 2022 has been confirmed as 10.1% (and the baseline projection allows for this).

In addition, the market's expectation of short term CPI has increased slightly since the 2022 valuation date. This is shown in the chart (with the orange dotted line reflecting the 2022 valuation assumptions and the blue line reflecting the projection of CPI from the ESS as at 30 September 2022.

The year 1 CPI assumption as at 30 September 2022 from the ESS model, is equal to the expected change in CPI over the year to September 2023, ie this is our estimate of the 2024 Pension Increase order. As can be seen on the chart this is expected to be c. 5% (as opposed to c. 3% as at the 2022 valuation).

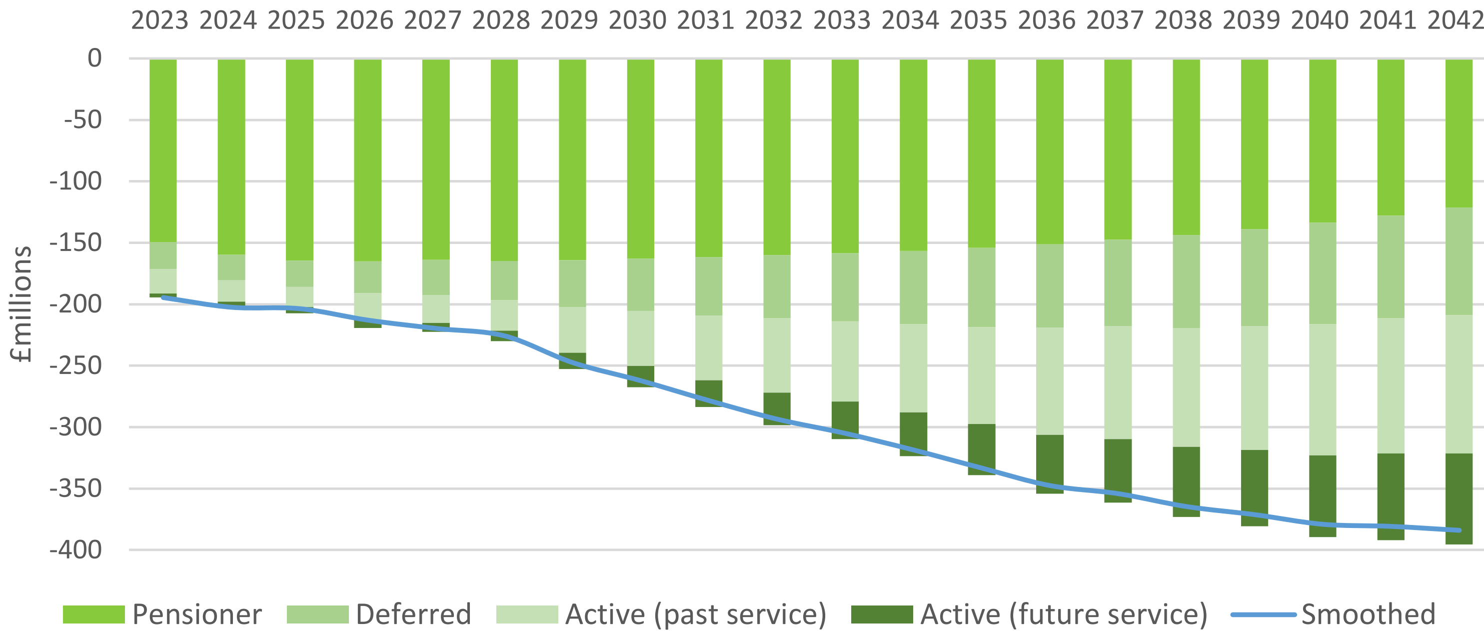
The current expectation of CPI is for this to be between 1% - 2% higher (on a cumulative basis) over the next 10 years.

Users of the report should be aware of the ongoing market volatility in September 2022 when considering this scenario. This volatility may have affected short-term inflation expectations as at 30 September 2022. Subsequent changes in UK Government and Bank of England policy may also affect future short-term inflation expectations.



HYMANS ROBERTSON

Projected benefit outflows (smoothed and updated CPI)



Notes

The effect of recognising up to date CPI expectation in the benefit outflows is to increase the future benefit payments (from 2024/25) by around 1% – 2%.

For example, in the 2027/18 year, the CPI adjusted benefit outgo is 1.4% higher than the smoothed baseline projection.

The blue line reflects the smoothed benefit projection (ie baseline adjusted for short term retirements as described in page 17).

The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

Benefit outgo is expected to be c. 1% - 2% higher each year from 2024/25 based on current CPI expectations

Prepayments

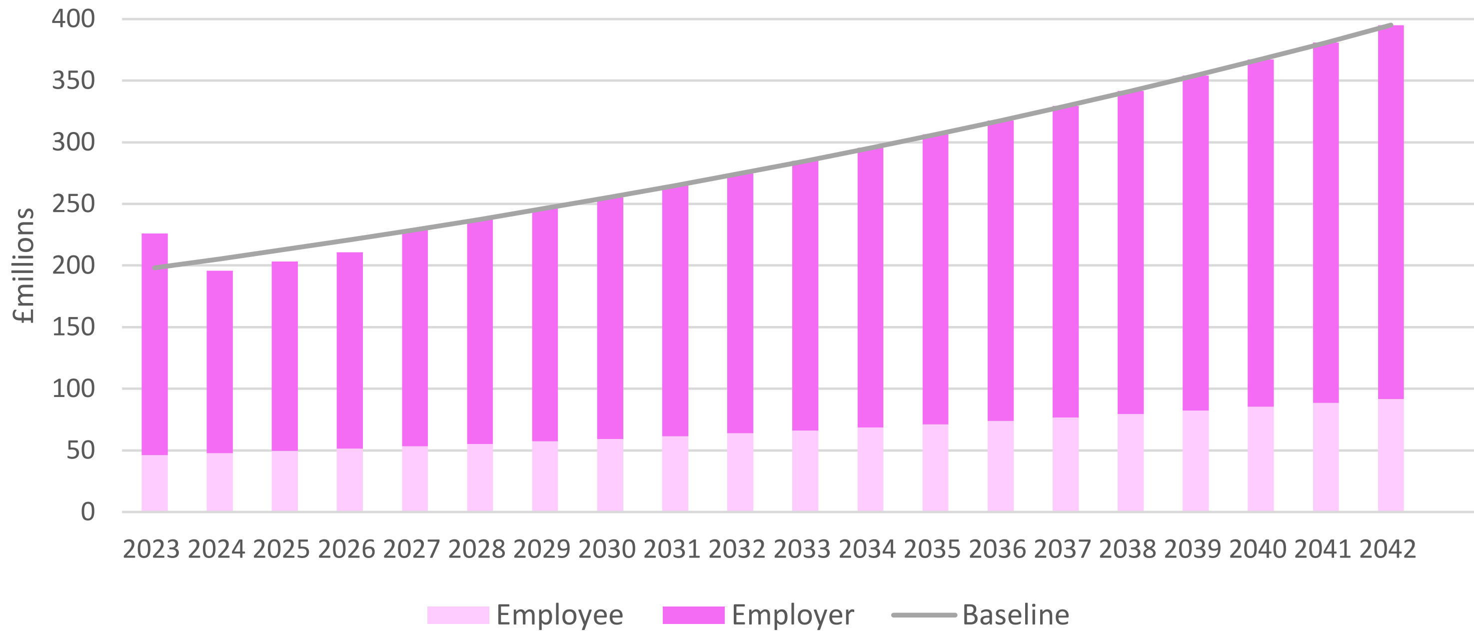
Following completion of the 2022 valuation calculations for the major employers, we have now set the draft contribution rates for all major employers from 1 April 2023 (assuming the total rate will remain fixed for all employers).

Some employers may choose to prepay some element of contributions due over the 2023-26 period.

Following the 2019 valuation some employers did choose to prepay (or partially prepay) monetary contributions certified for the 2020-2023 period. Uncertainty exists in terms of the level of contributions that will be prepaid by employers following the 2022 valuation, but for the purpose of illustrating the effect of this on the emerging net cashflow position, we have **assumed that those employers who have prepaid any element of contribution since the 2019 valuation will choose to prepay all monetary contributions by way of a single (discounted) payment in March 2023. Specifically;**

Employer	Prepayment (2022/23)	Reduction in contributions in 2023/24	Reduction in contributions in 2024/25	Reduction in contributions in 2025/26
Elmbridge BC	£5,839,679	£2,002,000	£2,076,000	£2,154,000
Guildford BC	£7,211,504	£2,472,000	£2,564,000	£2,660,000
Reigate and Banstead BC	£6,232,270	£2,136,000	£2,216,000	£2,299,000
Spelthorne BC	£4,505,293	£1,544,000	£1,602,000	£1,662,000
Tandridge DC	£4,005,848	£1,373,000	£1,424,000	£1,478,000
Total	**£27,794,593**	**£9,527,000**	**£9,882,000**	**£10,253,000**

Projected contribution income (prepayments)



Notes

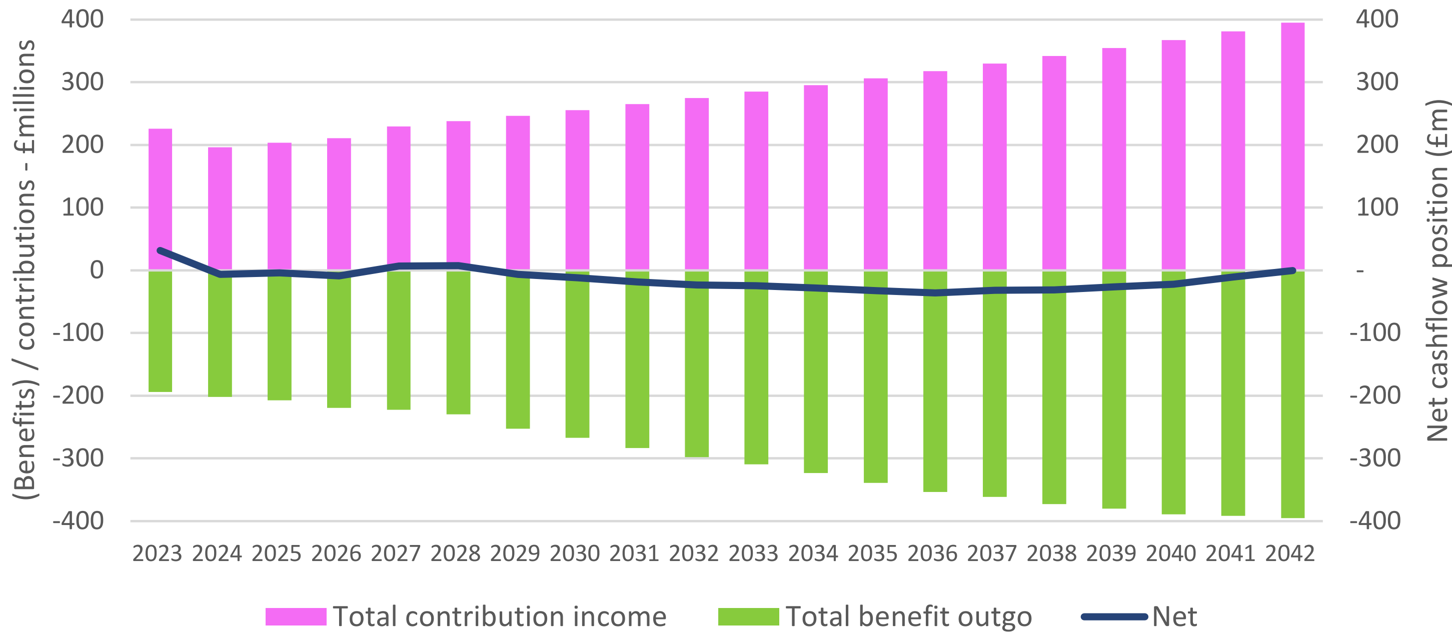
New entrants are implicitly allowed for in the income cashflow by assuming the payroll grows with inflation.

The years along the x-axis refer to the year-end i.e. 2023 means the 2022/23 financial year (from 1 April 2022 to 31 March 2023).

The effect of the assumed prepayments is to advance contributions that were due between 1 April 2023 and 31 March 2026 to be payable in the 2022/.23 year

Payroll is assumed to increase at 3.4% pa (in line with the formal valuation)

Projected net cashflow (all adjustments)



Page 268

Notes

The combined effect of the updated CPI assumptions, smoothing of short-term benefit outgo and the assumed level of prepayments mean that the Fund is expected to be cashflow negative over the 2023 to 2026 period.

Any prepayments made following the 2025 valuation (in 2025/26) would increase contribution income and may be sufficient to ensure the Fund is cashflow positive in this year.

The net cashflow position over the 2026 to 2028 period is expected to be positive, but this assumes no prepayment of contributions in the 2025/26 year,

From the 2028/29 year, the Fund is projected to be cashflow negative.

In this scenario, the Fund may want to review its short-term cash management strategy to ensure sufficient liquidity between 2023 to 2026.

Allowing for prepayments and short term inflation, benefits outflow is estimated to exceed contribution income over 2023-26

Assets are assumed to increase at 4.3% pa

Projections provided – **adjusted** based on additional scenarios

An excel spreadsheet containing the **adjusted** cashflows projection over the next 20 years has been provided alongside this report.

A projection period of 20 years have been set as the projection of benefits and outflows beyond this time period can be unreliable.

Included in the excel file are three tabs:

- **Surrey_WF_Outflows_ADJ** – a projection of expected benefit outgo over the next 20 years based on the method and assumptions set out in this report, adjusted to allow for a smoothing of short term outflows (as per page 18), updated CPI expectations (as per page 21), and split between actives (past and future services), deferreds and pensioners (status as at 31 March 2022).
- **Surrey_WF_Inflows_ADJ** – a projection of expected contribution income over the next 20 years based on the method and assumptions set out in this report, adjusted to allow for assumed prepayments (as per page 23), and split between employer (major employers, and others), and employee contributions
- **Surrey_Net position_ADJ** – the projection of total adjusted income and outgo over the next 20 years and the adjusted net position.

Year 1 in the projections is the 2022/23 year (i.e. from 1 April 2022 to 31 March 2023).

Neither myself, nor Hymns Robertson, accept any responsibility for any adjustments applied to the cashflow projections we have provided. I would expect the Fund to request a revised cashflow projection from me if any adjustments are required.

HYMANS # ROBERTSON

Projections – Inflation Scenarios

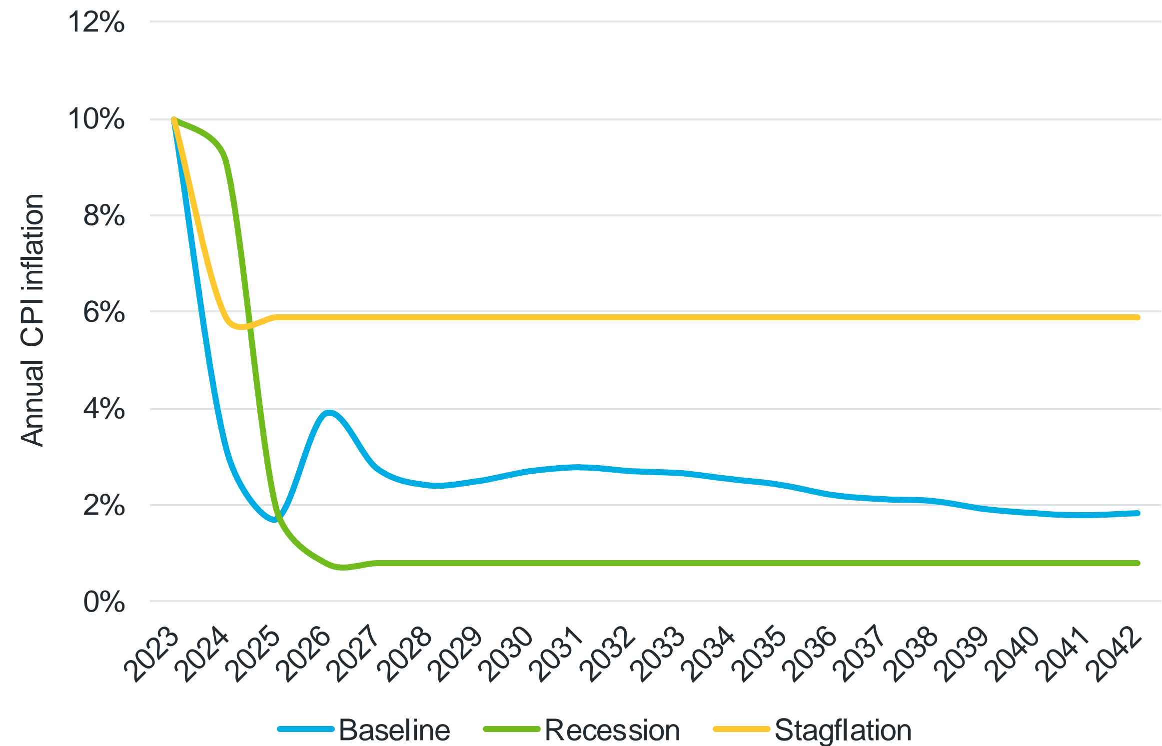
Inflation scenarios

Future CPI inflation

Given the sensitivity of future benefit payments to inflation, we have considered an additional 2 scenarios for future inflation. All scenarios assume a 10.1% increase in benefits in April 2023:

- Scenario 1 (the blue line): this **baseline** scenario as described in page 9.
- Scenario 2 (the green line): this represents a **recession** scenario, occurring largely due to excess supply over demand as a result of higher energy and food prices. This results in higher inflation in the next 2-3 years but then lower long-term inflation.
- Scenario 3 (the yellow line): this represents a **stagflation** scenario where inflation remains high due to higher energy and food prices.

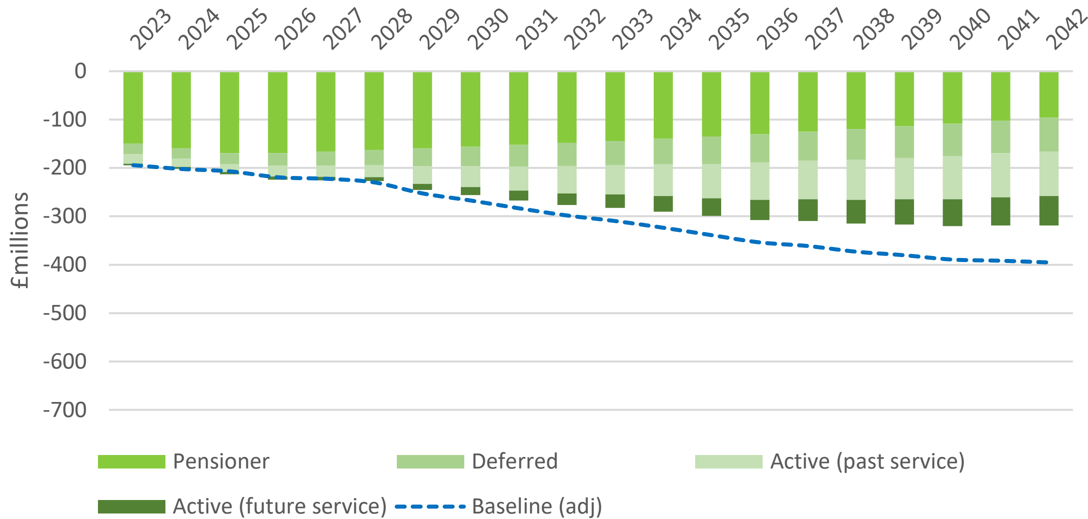
In all scenarios we have kept the payroll assumption constant at 3.7% pa.



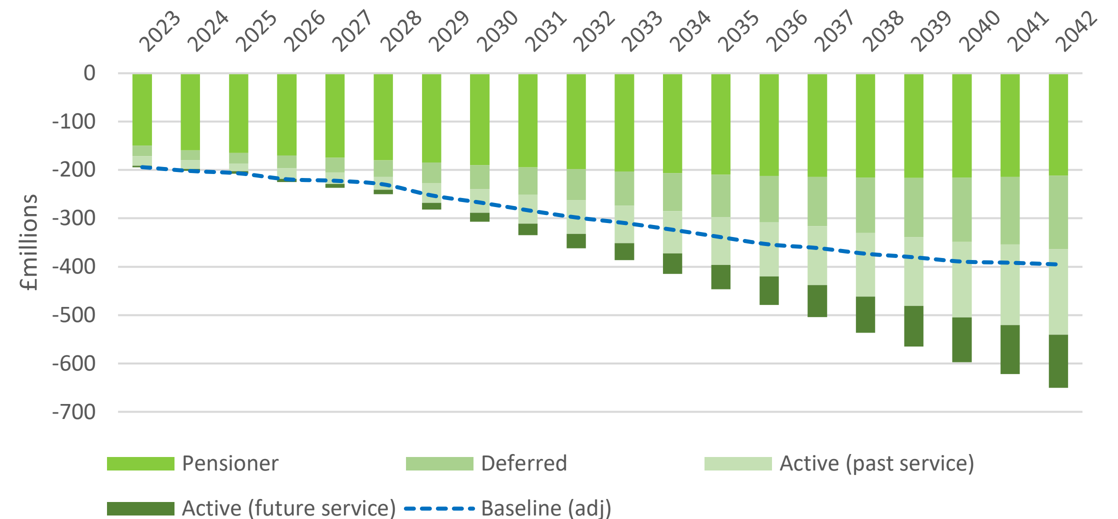
HYMANS ROBERTSON

Projected benefit outflows (inflation scenarios)

Recession



Stagflation

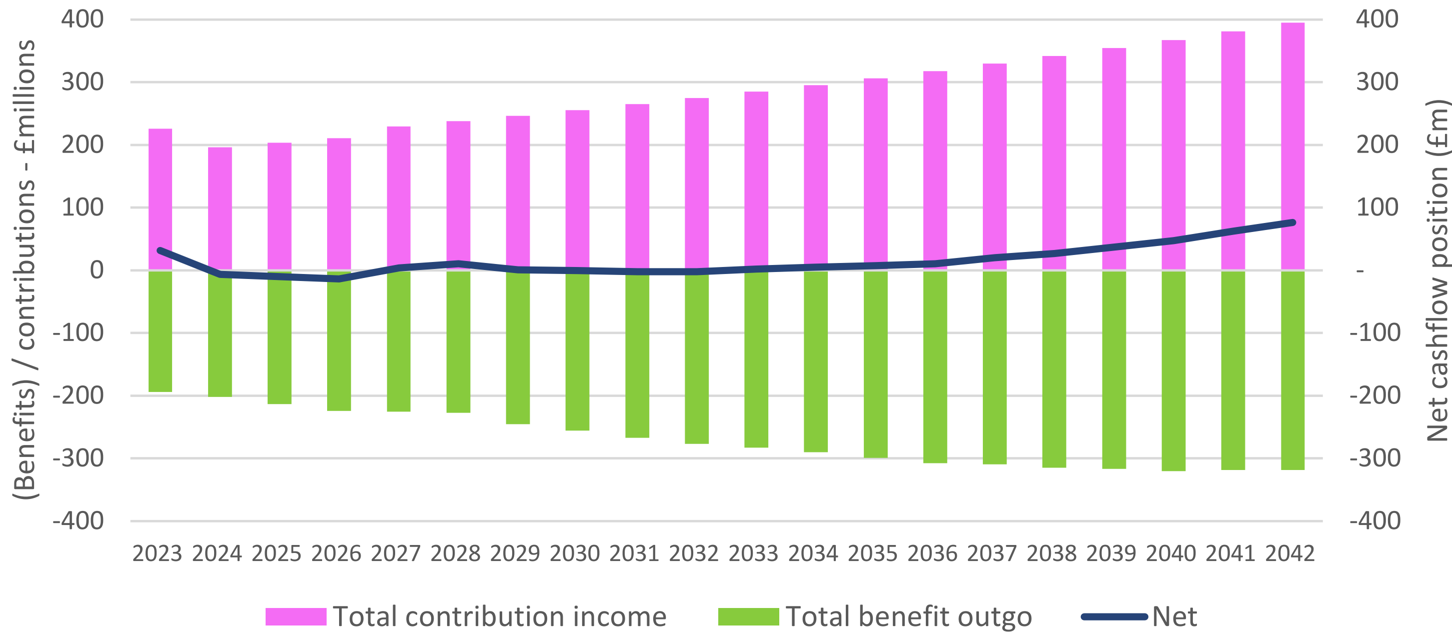


Page 272

Scenario analysis helps understand the impact on future benefit payments – difference of £330m by 2042

The baseline scenario shown allows for smoothing and current CPI expectations (as described in the previous section and shown in page 21)

Projected net cashflow (recession)



Notes

This scenario has higher inflation persisting in the short-term.

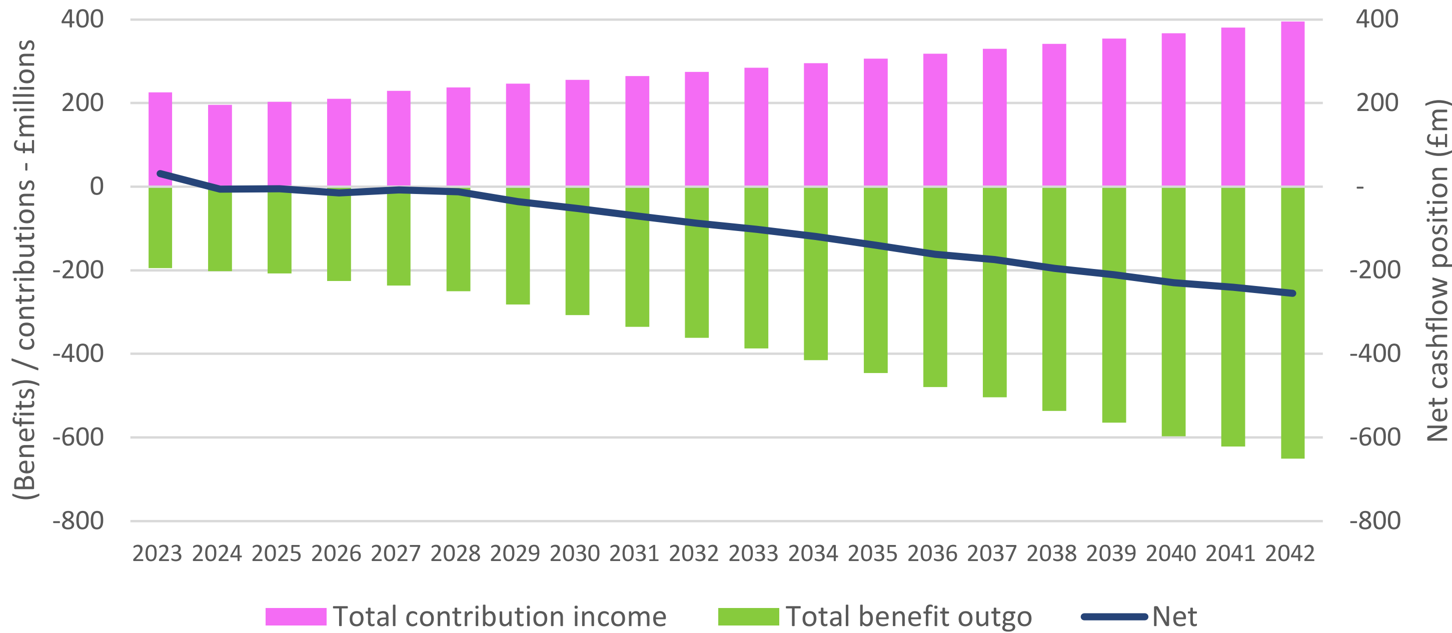
If this occurs, then the Fund may experience a slightly higher level of cashflow negativity in the short term, however, the magnitude would be relatively small and may be managed by income from the Fund's assets.

In the longer term, the lower inflation results in lower benefit payments and an improvement in the cashflow position.

A recession scenario increases cashflow challenges in the short term, however the net position may improve in the longer term

HYMANS ROBERTSON

Projected net cashflow (stagflation)



Notes

A stagflation scenario would result in a substantial gap opening up (assuming pay increases remain at 3.7% pa) in the longer term.

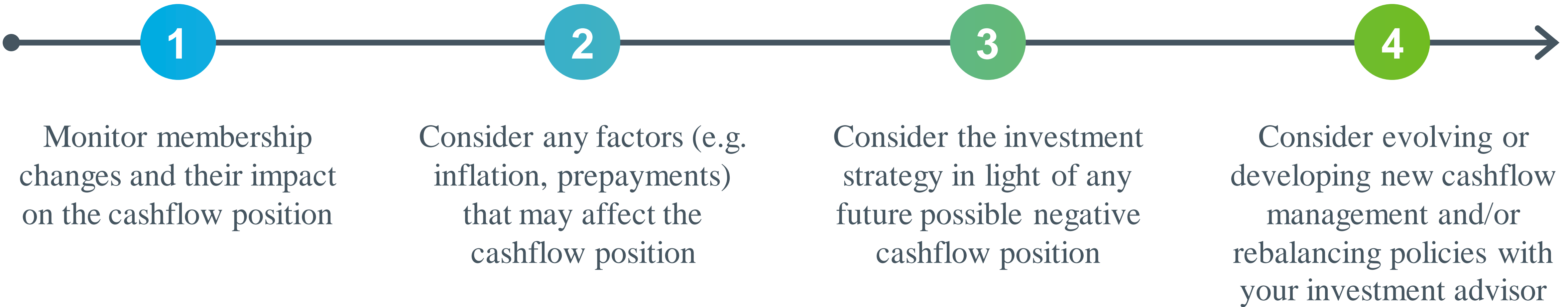
This would need to be managed by a higher income from the Fund's assets.

A stagflation scenario should lead to the emergence of a significant shortfall between contribution income and benefit outgo

HYMANS # ROBERTSON

Next steps

Next steps



HYMANS # ROBERTSON

Reliances and limitations

APPENDIX 1

Reliances and limitations

This paper is addressed to Surrey County Council as Administering Authority to the Surrey Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of projecting the expected cashflows of the Fund over a 20 year time horizon. It has not been prepared for any other purpose and should not be used for any other purpose.

The cashflow projections are based on a specific set of deterministic assumptions, which are highly unlikely to be borne out exactly. We therefore do not claim that the future will exactly match the figures in this paper. The results should be used to give an indicative idea of the Fund's medium term cashflow requirements only.

Any party must accept full responsibility for establishing that the cashflows are appropriate for the purpose to which they want to put them and any decisions that are taken based on their analysis. We cannot be held responsible for any losses sustained as a result of third parties relying on the cashflows provided, or if the cashflows are used for any inappropriate purpose

The extent of the deviations from the assumptions underpinning the cashflow projections depends on uncertain economic events as well as other factors that are not known in advance such as members' decisions, variations in mortality rates, retirement rates and withdrawal rates, fluctuations and rates of salary increase, and the numbers and ages of future new entrants which cannot be accurately predicted. In addition, there could be changes in the regulatory environment and possible changes in retirement benefits. These other uncertainties are often not related to any particular investment and economic eventualities.

Three of the important uncertainties are the:
(a) Rate of pension increases, the vast majority of which increase at the annual increase in CPI inflation
(b) Extent to which members elect to exchange pension for cash at retirement
(c) Level of future payroll and contribution rates which will determine the amount of contributions paid into the Fund

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing.

This report may be shared with the Fund's investment advisor for information purposes only but may not be passed onto any other third party except as required by law or regulatory obligation, without prior written consent of Hymans Robertson LLP.

In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100
- TAS300.

Mercer

welcome to brighter

Cashflow Review

Surrey Pension Fund

November 2022

Steve Turner
Sandy Dickson

A business of Marsh McLennan

Summary

Cashflow position

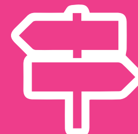
Overall position looks to be relatively neutral over the next few years (before taking any income from assets)

Not expected to be cash-flow negative until 2029

Potential excess cash requirements expected to be largely covered by return of income/capital from CBRE over next 3 years. Straight-forward to switch on.

Some income could also be taken from MAC to provide a buffer

Estimated income for 2023 from Property and MAC could be in excess of c.£40m



Operational Issues

Border to Coast's Equity and Multi-Asset Credit (MAC) funds invest in accumulation units.
Taking income from the funds essentially means making a disinvestment, but this can be done without incurring costs subject to a limit which is calculated by Border to Coast each January.

Longer-Term

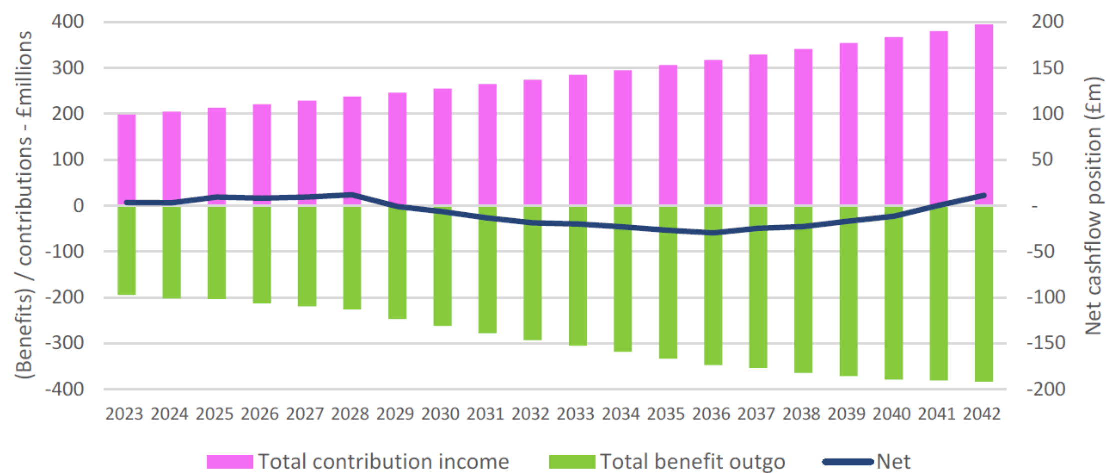
In theory, there is a healthy level of income potential from the assets (e.g. we estimate asset based income could be around £180m p.a. in future).

This allows significant flexibility as to how the Fund invests over the long-term, relative to the estimated cashflow needs to pay benefits

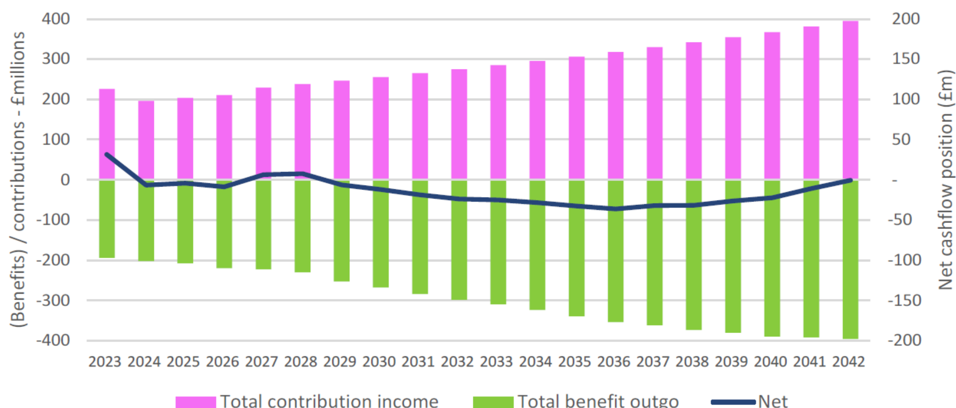
Projected Cashflow Scenarios

Cashflow baseline

Cashflow allowing for short term benefit smoothing



Cashflow allowing short term benefit smoothing, updated CPI assumptions and prepayments



- Hymans have produced 3 different projections of the Fund's estimated net cash flow position (contributions minus benefit outgo). See separate paper from Hymans for more details.
- The results for the scenarios are broadly similar; the Fund is not expected to be cashflow negative until 2029.
- Over the period 2029 to 2040, the average net negative cashflow is estimated to be around £22m, peaking at c.£36m in 2036/7.
- This analysis excludes the impact of what level of income could be expected from the assets, which we consider further in this report.

Source: Hymans Robertson. For more information on their cashflow projection modelling, please see Hyman's Cashflow Projection report dated 7 November 2022.

Asset Class Income Assessment

Key issues:

- The amount of meaningful income that can be automatically taken from the assets currently (without disinvesting) appears to be limited primarily to the CBRE property portfolio. Border to Coast's pooled funds for liquid assets currently only offer "accumulation" units – income cannot be automatically paid out. As such, to meet any cashflow needs (above income from CBRE), assets need to be disinvested (potentially incurring costs).

Asset Class	Target Allocation	Potential Yield p.a.	Comments
Global Equity	51.0%	2 - 4%	Longer-term we would only look to take equity dividends as income, if income from Property, Multi-Asset Credit and Private Markets are insufficient. This is unlikely to be an issue for many years. Border to Coast's equity and LGIM's Future World fund range do not currently offer an income payment facility. Assets with Newton and the regional LGIM equity funds could pay out income (c.2% to 3%) but these are unlikely to be long-term holdings for the Fund.
Emerging Markets Equity	3.8%	2 - 3%	
Multi-Asset Credit	12.1%	10 - 12%	Given current market yields, this asset class offers a very attractive source of income. Income would need to be taken from Border to Coast in the form of the cash withdrawal plan. In 2022, a maximum of £1.6m per month (c.£20m p.a.) could have been withdrawn without incurring a dilution levy. This figure will be recalculated in January 2023 based on the yield of the fund at the time minus a haircut. We expect the amount to increase but this is to be confirmed.
Property	7.6%	4 - 5%	CBRE estimate income/return of capital for the following periods as being: 2022/2023 = £25m, 2023/2024 = £19m and 2024/2025 = £17m. We understand arrangements will need to be put in place to implement this. Income is currently being re-invested.
Infrastructure	6%	9 - 15%	These allocations are expected to be good sources of contractual income over the long-term, but it will take several years and multiple vintage cycles to achieve target allocations. The source of funds to meet capital commitment for these assets is in theory invested in the Border to Coast Listed Alternatives fund, which eases near term sourcing issues. Distributions to be expected from previous Private Equity holdings. It would be useful to undertake more detailed analysis of the expected future distributions from the asset classes at a future review (not required at this time, in our view). Yield estimates also make an allowance for return of capital.
Private Debt	6%	8 - 12%	
Private Equity	5%	9 - 15%	
Miscellaneous Alternatives / Climate Opps	3%	Too early	
Gilts	5.5%	3 - 4%	Income levels have increased this year due to rise in yields.

Based on estimates from Mercer and underlying investment managers based on current market conditions. Subject to change.

Future Portfolio Income Potential

- This is estimated theoretical analysis providing an indication of the level of income that could be achieved from the Fund's portfolio, once the allocations to Private Markets are up to target.
- Based on the value of the assets as at 31 March 2022.
- Given the contribution and benefit outflow projections from Hymans, the Fund is not expected to be cashflow negative (excluding asset income) until 2029.
- This allows significant flexibility as to how the Fund invests over the long-term.
- Ideally, all of Border to Coast's pooled funds would be set-up operationally to be able to automatically pay out income without incurring transaction costs.
- We understand that Border to Coast will be reviewing this at some point. In the meantime, we would suggest that Officers make a formal request to Border to Coast's to investigate this further.

Based on estimates from Mercer and underlying investment managers based on current market conditions. Subject to change.

Important notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2022 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **COMPETITION & MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES**

SUMMARY OF ISSUE:

Local Government Pension Schemes (LGPS) are required to set strategic objectives for their Investment Consultant (IC) Provider and monitor performance against these objectives.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the Strategic Objectives for Investment Consultants of the Fund as approved in December 2021.
2. Note compliance against these strategic objectives by the IC provider for 2022.
3. Approve for the submission of the CMA Compliance Statement and Certificate for 2022.

REASON FOR RECOMMENDATIONS:

Performance monitoring of the IC meets CMA requirements and is consistent with the Fund's strategic investment objectives.

DETAILS:

Background

1. The Pensions Act 1995 requires the trustees of a LGPS to appoint certain professional advisers to carry out specific tasks in relation to the scheme. The IC Provider should have the knowledge, experience and professional qualifications to provide investment advice to the Fund.
2. The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 applied an obligation to the LGPS to set strategic objectives for providers of IC services.
3. The Fund's current IC is Mercer. The Fund retendered for IC services in April 2021 and at its meeting of 9 July 2021, the Committee approved the appointment of Mercer as the IC on a 3-year contract with an option to extend for an additional 2 years, with effect from July 2021.

4. At its meeting of 10 December 2021, the Surrey Pension Fund Committee approved the Strategic Objectives for Investment Consultants of the Fund in line with CMA Requirements.

5. As part of the tender process, Mercer were required to satisfy service criteria, which have been incorporated into the assessment.

6. The assessment of the IC provider against the agreed objectives and service criteria was completed by the Chair, Independent Investment Adviser and officers. This is shown in Annexe 1.

7. The CMA's expectation is that investment consultancy providers' objectives will be reviewed at least every three years and after any significant change to investment strategy and objectives.

8. In addition, the CMA expects clients will ask their IC providers to report periodically on their performance in meeting the objectives, although there is no set frequency for this. The review in Annexe 1 was sent to the IC for comment and feedback incorporated.

9. The annual compliance statement must be submitted to the CMA by 7 January 2023, covering the period 10 December 2021 to 9 December 2022.

10. As per Annexe 1, the IC has satisfied the strategic objectives as required by the CMA.

CONSULTATION:

11. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

12. Risk management implications of the strategic objectives could involve how the IC Provider advises the Fund in monitoring the risk attrition of its portfolio.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. There could be financial and value for money implications should the IC not meet its strategic objectives.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

14. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. It is a legislative requirement to set and monitor performance against IC strategic objectives as part of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

EQUALITIES AND DIVERSITY

16. There are no equality or diversity issues.

OTHER IMPLICATIONS

17. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

18. The following next steps are planned:

    a) Submission of the CMA Compliance Statement and Certificate for 2022.
    b) An assessment of performance versus the objectives set will be carried out in respect of 2023 and presented to the Committee at its meeting of 15 December 2023.

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:

1. Annexe 1 - Strategic Objectives Review Table (Part 2)

Sources/background papers:

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **RESPONSIBLE INVESTMENT NEXT STEPS**

SUMMARY OF ISSUE:

A key priority of the Pension Fund Committee (PFC) is to approve the Responsible Investment (RI) policy after considering the consultation feedback and set a net zero date consistent with its fiduciary responsibility of meeting pension liabilities.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approve the delegation of the following to the Responsible Investment Sub Committee (RISC) regarding the consultation
   a. Review the results of the RI policy consultation in January 2023.
   b. Agree any recommendations resulting from the consultation to be put to the PFC in March 2023.

2. Approve the delegation of the following to the RISC regarding setting a net zero date
   a. Agree a brief to be put to an investment consultant for the purpose of making a recommendation regarding a net zero date.
   b. Receive analysis from the consultant.
   c. Recommend a net zero date to be brought to PFC for approval at 16 June 2023 meeting.
   d. To consider the pathway to the net zero date.

3. Approve officers to continue to work with the RISC, investment consultant and independent advisor to facilitate this process.

REASON FOR RECOMMENDATIONS:

To enable the Pension Fund Committee to fulfil the key priority of agreeing the Responsible Investment Policy and setting of a net zero date and pathway.

BACKGROUND:

1. The PFC approved the RI policy at the 17 June 2022 meeting subject to consultation. The feedback from the consultation will be available for review in January 2023.

13

2. A key priority for the Pension Fund Committee is to agree the RI policy and set a net zero date. This must be consistent with the fiduciary responsibility of the Committee.

3. Given the uncertainty regarding any impact a particular net zero date could have on the future funding position of the Fund, the Committee required further exploration of potential net zero dates.

DETAILS:

Consultation feedback

4. The RI policy consultation was launched on 12 September 2022 and closed on 6 November 2022. There were over 7000 responses, of which over 1000 included written comments in the freeform text box.

5. Data regarding the questions answered and the classification of the text replies will be available in January 2023. This will be reviewed by the RISC and any recommendations resulting from the consultation to be put to the PFC at the March meeting.

6. All consultation results and feedback to be published.

Net zero date setting

7. A key element of the RI policy is for the PFC to agree a net zero date. At the meeting of 23 September 2022, the Committee did not feel it had enough information to set a net zero date whilst maintaining confidence that it was consistent with its fiduciary duty.

8. Since the PFC meeting on 23 September 2022, Mercer, the Fund's Investment Consultant, has advised on further work they are able to carry out to enable the Committee to decide on the net zero date.

9. Therefore, it is suggested that the RISC formally set a brief with a question, or series of questions, for an advisor to analyse and report back on.

10. It is proposed that Mercer receive the agreed brief and present to the RISC their approach to answering it. The RISC will then accept Mercer's approach or, if not deemed sufficient, request a tender process to open the brief to competition. The latter solution could change the time scales.

CONSULTATION:

11. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

12. The consideration of risk related issues, including investment, governance, and reputational risk, are an integral part of this project and will be considered as part of the project development.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. There are no financial and value for money implications contained in this report.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL

14. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues, and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

16. There are no equality or diversity issues.

OTHER IMPLICATIONS

17. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

18. The following next steps are planned:

    a. Officers to receive and prepare the results of the consultation for review by the RISC.

    b. RISC to formalise the brief for the consultant regarding net zero pathway and date.

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:

Sources/background papers:

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCE & COMMERCIAL**

SUBJECT: **DEPARTMENT OF LEVELLING UP, HOUSING & COMMUNITIES CONSULTATION ON GOVERNANCE AND REPORTING OF CLIMATE CHANGE RISK**

SUMMARY OF ISSUE:

To provide details of the Department for Levelling Up, Housing & Communities (DLUHC) consultation on Governance and Reporting of Climate Change Risk and the response from Surrey.

RECOMMENDATIONS

This report recommended that the Pension Fund Committee:

1. Notes the report and annexe.

REASONS FOR RECOMMENDATIONS:

The Pension Fund Committee will be made aware of all national initiatives with a consultation process with a response sent within stated deadlines, in accordance with the Fund's strategic governance objectives.

DETAILS:

Background

1. In September 2022, the DLUHC sought views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

2. The TCFD published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. In November 2020, the government announced the UK's intention to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. The joint Government Regulators Taskforce's Interim Report, and accompanying roadmap, published alongside the announcement, sets out an indicative pathway to achieving that ambition.

3. LGPS funds are already required to consider factors that are financially material to the performance of their investments, including environmental, social, and corporate governance considerations. They also must have a policy stating how such considerations will be considered in setting their

investment strategy. The aim of the proposals in this consultation document is to build on that position by ensuring that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by LGPS funds, and that they report transparently on their approach in line with broader UK policy.

14

4. The government's view is that the requirements for the LGPS should set as high a standard as for private schemes. They have therefore made the requirements for private schemes the starting point for their proposals but have aimed to take account of the unique features of the LGPS including its local administration and democratic accountability through the LGPS funds.

5. The Department for Work and Pensions (DWP) has already introduced requirements on climate risk management and reporting for private pension schemes, in regulations which came into force on 1 October 2021. Implementation will be staged for private pension schemes. Private schemes with £5 billion or more in assets were immediately in scope, with those with £1 billion or more to follow in October 2022. Schemes with less than £1 billion in assets are not currently covered.

Summary of proposals

6. The new requirements are summarised below:

Area	Proposal
Overall	Each LGPS Fund must complete the actions listed below and summarise their work in an annual Climate Risk Report.
Scope and Timing	The proposed regulations will apply to all LGPS Funds. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024.
Governance	LGPS Funds will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.
Strategy	LGPS Funds will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.

Scenario Analysis	LGPS Funds will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.
Risk Management	LGPS Funds will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.
Metrics	LGPS Funds will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below. Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions. Metric 2 will be an emissions intensity metric. The Government propose that all LGPS Funds should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but LGPS Funds will be asked to explain their reasoning for doing so in their Climate Risk Report. Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**, Estimated or Unavailable.

	Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner. Metrics must be measured and disclosed annually.
Targets	AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.
Disclosure	LGPS Funds will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. The Government propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.
Scheme Climate Report	The Government that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. The Government also propose that a list of the targets which have been adopted by AAs. The Government are open to views as to whether any other information should be included in the Scheme Climate Report.
Proper advice	The Government propose to require that each LGPS Funds take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

14

Surrey's response (see annexe)

7. The Fund has long recognised the imperative to address climate change as a systemic and long-term investment concern for our stakeholders. It poses material financial risks across all asset classes with the potential for loss of shareholder value.

8. Achieving a just transition to a net zero economy cannot be achieved by companies or investors alone. It also requires government action to raise standards across the piece. With the provision of a clearly identified legislative framework on carbon reductions, companies and investors will be able to make the necessary decisions and financial commitments to provide the short and long-term solutions to decarbonisation of the economy that are needed.

9. The Fund therefore is a strong supporter of the introduction of mandatory carbon emissions and risk reporting. The Fund supports the recommendations of the Financial Stability Board's TCFD report and considers all market participants should be encouraged to aim for the fullest relevant implementation. The Fund itself has produced a TCFD based report on a voluntary basis in each of our Annual Reports from 2020, to help our stakeholders understand how climate is integral to investment decisions and reporting.

10. The Fund agrees that all funds should report against TCFD. However, we recommend that proposed guidance includes specific sections for smaller funds, especially with regard to metrics and scenario analysis.

11. There also seems to be misalignment between government objectives and regulation regarding scenario analysis. Clearly it would be unfair and inconsistent to have different obligations for LGPS funds than to issuers or occupational pension funds regulated by the DWP. It would, however, appear sensible to have alignment with government policy regarding scenarios. Achieving net zero by 2050, as enshrined in the UK Climate Act, implies a 1.5 degree rise rather than 2 degrees and therefore requirements should focus on this figure. As such, the Fund would encourage government, its departments and its agencies, to adopt 1.5 degrees as the required benchmark for all issuers, asset managers and asset owners. Not doing so creates financial and investment risks associated with government policy pushing for 1.5 degree reduction but disclosures judged against a 2 degrees standard.

12. Finally, while the Fund supports TCFD reporting, an area of concern is the oversight of the social implications of the transition within the TCFD framework. Failing to consider the impact of the transition on workers, communities, supply chains and consumers carries financial risks. These include opposition to climate action which will slow the pace of the transition (economy-wide and for individual companies). There are also specific issues around skills, employment standards and human rights, which create legal

and operational risks as well as reputational ones and we believe the consultation underlined the need to take forward the recommendations of the Good Governance Project led by the Scheme Advisory Board.

14

13. Alongside the risks there is considerable opportunities to improve social outcomes which can help support economic and financial stability. The Fund recommends that issues around the just transition are included within the government's approach to TCFD regulation.

14. Surrey's full response is shown as annexe 1.

CONSULTATION:

15. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

16. Risk related issues have been considered and are included within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

17. Financial and value for money implications will be considered as part of the Government response to the consultation.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

18. The Director of Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

19. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

20. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

21. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

22. The following next steps are planned:

    a) Provide the Pension Fund Committee with details of the results of the consultation.

Contact Officer:
Neil Mason, Assistant Director, LGPS Senior Officer

Sources/background papers:

1. The DLUHC consultation on Governance and Reporting of Climate Change Risk [Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks - GOV.UK (www.gov.uk)]

Annexes:

1. Surrey County Council response to the DLUHC consultation on Governance and Reporting of Climate Change Risk.

This page is intentionally left blank

Email: neil.mason@surreycc.gov.uk
Phone: 0300 200 1031
Our Ref: TCFD

Providing our customers with a better tomorrow

14

LGPensions@levellingup.gov.uk
By e-mail

Surrey Pension Team
2nd Floor Dakota
11 De Havilland Drive
Weybridge
KT13 0YP

23 November 2022

Dear Sir or Madam,

Consultation "Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks"

Surrey County Council (Surrey) welcomes the opportunity to respond to this consultation on Governance and reporting of climate change risks from the Department of Levelling Up, Housing and Communities (DLUHC).

Surrey is the Administering Authority for the Surrey Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS). The Fund has assets of over £5billion and over 300 employers.

The Fund has long recognised the imperative to address climate change as a systemic and long-term investment concern for our stakeholders. It poses material financial risks across all asset classes with the potential for loss of shareholder value.

Achieving a just transition to a net zero economy cannot be achieved by companies or investors alone. It also requires government action to raise standards across the piece. With the provision of a clearly identified legislative framework on carbon reductions, companies and investors will be able to make the necessary decisions and financial commitments to provide the short and long-term solutions to decarbonisation of the economy that are needed.

The Fund therefore is a strong supporter of the introduction of mandatory carbon emissions and risk reporting. We support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) report and considers all market participants should be encouraged to aim for the fullest relevant implementation. The Fund itself has produced a TCFD based report on a voluntary basis in each of our Annual Reports from 2020, to help our stakeholders understand how climate is integral to investment decisions and reporting.

The Fund agrees that all funds should report against TCFD. However, we recommend that proposed guidance includes specific sections for smaller funds, especially with regard to metrics and scenario analysis.

There also seems to be misalignment between government objectives and regulation regarding scenario analysis. Clearly it would be unfair and inconsistent to have different obligations for LGPS funds than to issuers or occupational pension funds regulated by the DWP. It would, however, appear sensible to have alignment with government policy regarding scenarios. Achieving net zero by 2050, as enshrined in the UK Climate Act, implies a 1.5 degree rise rather than 2 degrees and therefore requirements should focus on this figure. As such, the Fund would encourage government, its departments and its agencies, to adopt 1.5 degrees as the required benchmark for all issuers, asset managers and asset owners. Not doing so creates financial and investment risks associated with government policy pushing for 1.5 degree reduction but disclosures judged against a 2 degrees standard.

14

Finally, while the Fund supports TCFD reporting, an area of concern is the oversight of the social implications of the transition within the TCFD framework. Failing to consider the impact of the transition on workers, communities, supply chains and consumers carries financial risks. These include opposition to climate action which will slow the pace of the transition (economy-wide and for individual companies). There are also specific issues around skills, employment standards and human rights, which create legal and operational risks as well as reputational ones and we believe the consultation underlined the need to take forward the recommendations of the Good Governance Project led by the Scheme Advisory Board.

Alongside the risks there is considerable opportunities to improve social outcomes which can help support economic and financial stability. The Fund recommends that issues around the just transition are included within the government's approach to TCFD regulation.

The rest of this response is focused on the specific questions outlined in the consultation document.

Question 1: Do you agree with our proposed requirements in relation to governance?

We believe the proposals set out in this consultation underline the need to take forward the recommendations of the Good Governance Project led by the Scheme Advisory Board, particularly in terms of ensuring both officers and members have the appropriate level of training and understanding and that roles and responsibilities are clear.

Question 2: Do you agree with our proposed requirements in relation to strategy?

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value and investment returns. We agree that it is therefore essential that LGPS Funds identify and assess climate-related risks and opportunities that impact their investment strategies.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

We recognise that conducting scenario analysis at the overall Fund level is relevant for LGPS Funds to assess the impacts over the medium and long-term on their assets, liabilities and strategies.

Carrying out scenario analysis, reporting on appropriate metrics that include greenhouse gas emissions, and setting appropriate targets, would also provide valuable inputs to inform a LGPS Fund's investment strategy. It would further allow LGPS Funds to monitor and review progress and to make amendments to the investment strategy where necessary. Disclosing this information would provide greater transparency to members and taxpayers about how their money is being managed.

We welcome the recognition that the use of climate scenarios is still new, that current assumptions and methodologies vary and data quality and availability may also be a problem for some asset classes, and that the proposed regulations would require LGPS Funds to conduct scenario analysis as 'as far as they are able to'. Scenario analysis is only significantly developed for equities and some fixed income assets. As a result, there would have to be some extensive simplifying

assumptions to be able to apply it across other asset classes, raising questions about the usefulness of any conclusions.

Given the wide range of scenarios based on a 2°C or lower temperature rise there is a risk of selection bias. We believe it would be more appropriate for the statutory guidance to mandate the scenario analysis to be undertaken for the common scenario analysis across all LGPS Funds.

We consider alignment of scenario analysis with the valuation cycle is appropriate. The proposed regulations should therefore clarify whether scenario analysis is expected in 2023/24 given this is mid-valuation.

We agree that LGPS Funds should have the discretion over whether scenario analysis should be repeated within a valuation cycle and explain that approach.

Due to the actuaries of LGPS Funds also conducting scenario analysis there may be some duplication leading to additional costs for LGPS Funds, different outputs and potential conflicts.

Question 4: Do you agree with our proposed requirements in relation to risk management? Conclusion

We agree with the broad principles set out around risk management and look forward to seeing the detail in the statutory guidance. However, there is the risk that LGPS Funds may not have sufficient resource and may lead to an over reliance on consultants. We believe the statutory guidance should set out what a best practice approach in this area could look like.

Question 5: Do you agree with our proposed requirements in relation to metrics?

We support the use of the absolute emissions (total financed carbon emissions) metric to measure overall carbon emissions attributable to the fund’s invested assets but further clarity is needed on the calculation and formula for this proposed metric.

We would question the usefulness of reporting total carbon emissions at a whole fund level. Such a figure would have the potential to be a highly misleading indicator where change from year to year is driven by complex underlying reasons which cannot be explained by a single number. The uncertainty created by the figure is likely to lead to questions and queries that put further unnecessary strain on limited resources. We consider metrics to be most useful when calculated at the portfolio or asset class level. In our response to Question 8 we set out our concerns about the aggregation of data underpinned by modelling and estimations at scheme level and have similar concerns at fund level.

We support the use of an emissions intensity metric, however, further clarity is needed on the calculation and formula for this proposed metric. This is to ensure there is no ambiguity and that the calculation is aligned with current best practice.

There should be no reason why LGPS Funds would be able to provide Weighted Carbon Intensity data but is unable to provide the Carbon Footprint data. Providing the option to use a different intensity metric will make it harder to aggregate at Scheme level. As carbon emissions are the common input into all of the suggested intensity metrics it would be more appropriate to permit LGPS Funds to use a different intensity metric in addition to the carbon footprint metric.

We are supportive of including metrics on data quality and acknowledge the role that the LGPS can play in using its influence to encourage increased data reporting across asset classes. The proposal is for LGPS Funds to show the percentage of the value of their assets for which emissions have been verified, reported, estimated or where data is unavailable. However, the reporting of data as ‘verified’ is not currently standard with third-party data providers. This would need to be on a best endeavours basis, and to be improved and reported over time.

We do not agree with reporting Scope 1, 2 and 3 data separately as well as aggregated for each proposed metric. Whilst it is understood that Scope 3 should be disclosed, there are issues regarding data quality, with high levels of estimation required and the significant risks of double

14

counting of emissions. In addition, there is an absence of sufficiently robust methodologies and issues with the data quality and availability.

Modelling or estimating emissions for assets not covered is problematic. Different methodologies could be used by data providers, LGPS Funds or their pooling companies, potentially leading to very different results and outcomes; for example, using the Listed Utilities sector as a proxy for renewables investments in Private Markets would result in a high carbon profile (under Scope 1/2) and perhaps result in unintended consequences impacting renewables investments.

To help pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, and associated DWP Statutory Guidance, a template was developed by a working group which included the PLSA, ABI and Investment Association. This template was also developed to help insurers and investment managers fulfil their obligations under the FCA's ESG Sourcebook. This template requests managers to report Scope 1 and 2 emissions in aggregate and Scope 3 separately. Some managers will already be reporting data in this format. Reporting of data by third-party providers varies, some do not report Scope 1 and 2 separately but as an aggregated figure. Requiring LGPS Funds to reports all three scopes separately may add extra cost to extract the data.

Reporting extra data and numbers also has the potential to make reporting more confusing for stakeholders with no perceivable benefits. We are supportive of aligning portfolios with the Paris goal, limiting global warming to well below 2°C (and preferably to 1.5°C), compared to pre-industrial levels. However, whilst we recognise the importance of an alignment metric, we are concerned that over reliance on some alignment metrics, such as implied temperature rise (ITR), may drive investment decisions that improve the alignment score rather than actively manage the underlying climate risks, such as reducing or divesting entirely from currently high emitting companies and sectors. Reporting a Binary Target Measure based on the proportion of assets that have set a Paris-Aligned target is more appropriate and can be improved and added to over time. It is also important to consider the credibility of these targets and whether they are achievable. We believe it would be more appropriate to mandate an approach to determining alignment such as the Paris Aligned Investment Initiative (PAII) criteria, as this is already enshrined in Net Zero guidance so easier to ensure mass adoption.

We agree with the reservations expressed about the use of implied temperature models; these were highlighted in the TPI's TCFD consultation response from June 2021 which we co-signed. Different models from different data providers can produce very different ITR results, which could lead to 'model shopping' to find the metric which produces the lower score. There are also data gaps, inconsistencies and lack of reliability across many asset classes which limits the value of the metrics.

Although we shouldn't let 'perfect be the enemy of good,' and see how an ITR can be used to engage beneficiaries, the lack of a standardised methodology and decision-usefulness still remain, and we therefore agree that ITR models should not be used to support the proposed Paris alignment metric.

Although DLUHC is not mandating the use of ITR models, it is encouraging their use. This, and the suggestion LGPS Funds could pursue other metrics, risks creating a perception that some LGPS funds are less committed in this area than others when the reality may be grounded in capacity and proportionality. If the use of ITR is to be progressed, the methodology should be mandated otherwise there is no way to ensure comparability.

Question 6: Do you agree with our proposed requirements in relation to targets?

There is a fundamental tension in the approach set out in the consultation which prescribes the use of specific metrics, allows target setting against those or other metrics chosen by individual LGPS funds and the intention to produce a Scheme-level climate risk report.

We are supportive of our pooling company's approach which sets targets to increase the proportion of portfolio companies aligned to Net Zero. Their portfolio target is broken down into asset class level targets which together aim for a more ambitious emission reduction trajectory than the IEANZE2050 pathway.

We would argue that to promote a degree of consistency across the Scheme, one metric against which a target is set should be mandated. In our view, carbon footprint would be the most appropriate metric against which the target should be set. Where targets are set, we believe that LGPS funds should explain the rationale for their choice of metrics and targets and should disclose this in their TCFD report.

Question 7: Do you agree with our approach to reporting?

Given the urgent action required regarding climate change, there is a need for a consistent approach across the pensions industry with regard to reporting on climate-related risks and opportunities. We therefore in principle, due to the public nature and transparency of the LGPS and to ensure that all stakeholders have access, support publishing reporting in line with the recommendations of the TCFD.

However, the proposals will place the same requirements on all LGPS funds from April 2023, regardless of size, in contrast to the approach taken in regard to occupational pension schemes where a ratcheted approach was adopted initially focusing on compliance from the largest schemes. There would further appear to be a tension between the timelines for reporting set out in these proposals and the requirements of the FCA's TCFD regime which requires the first public disclosures to be made by June 2023.

Implementing these reporting requirements from April 2023 and the production of first reports by December 2024 will pose a significant and perhaps insurmountable challenge for many LGPS funds, particularly those smaller in scale. We say more about the role of LGPS pools in our answer to question 9 but note here that pools are not all constructed in the same way and capabilities in this area will be varied.

The consultation emphasises the importance of LGPS funds having access to the relevant expertise and advice. Given the timescale of this consultation and the proposed implementation, it is difficult to see how LGPS funds could practically procure that expertise in the time available. Procurement of this expertise will also create additional costs. It is not clear there is sufficient supply of external advice to meet demand which will likely further drive costs upwards. We say more about skills in our answer to question 11.

We agree that LGPS funds should have the freedom to choose whether their Climate Risk Report is a standalone document or part of its Annual Report, that it should be readily available to members and it should be accessible to non-specialists.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

We are unclear as to the purpose and usefulness of the proposed Scheme Climate Risk Report, beyond providing signposting to the reports produced by individual LGPS funds.

The consultation acknowledges the lack of available data, the quality of data and the limitations of metrics as challenges facing LGPS funds in terms of reporting and recommends the use of modelling and estimation to fill them. As previously discussed, data availability is varied for different asset classes and non-existent for some. Use of data providers and the underlying methodologies will vary across

LGPS funds leading to metrics not being calculated in the same way. Until there is a standard industry approach to carbon footprinting, it would not make sense to aggregate the data for the four metrics from each AA's Climate Risk Report as the data would be neither comparable nor compatible.

Aggregating these uncertainties and variations across 89 LGPS funds will undermine the reliability of the Scheme-level figures produced, and increase the likelihood of significant shifts in the published headline data from one year to the next driven by the changing quality of the underlying data rather than material changes in the level of climate risk. While individual LGPS funds and pools have the context in which to understand significant shifts in the data, these will be much harder to identify and explain at an aggregated level for the whole Scheme.

In addition, producing such a Report would de facto hold the Scheme Advisory Board responsible for the climate risk in the scheme overall when it has neither the remit nor the powers to effect change in the decisions taken by LGPS funds. The SAB has an important role to play in advising Government on the opportunities and challenges faced by LGPS funds but its ability to do so will not be helped by such a report in this form. Indeed the variations and uncertainties would risk stakeholders drawing erroneous conclusions around the performance in addressing climate change risk, and could lead to misinformed pressures to divest.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

We see a positive role for LGPS asset pools in driving responsible investment, pursuing active engagement and encouraging the development of stronger data and transparency. However, it is important to recognise that the pools have different operating models and levels of resource to meet these and existing reporting requirements.

We see supporting our Partner Funds in meeting reporting requirements as an important part of the function of polling companies. However, this will take time to develop to meet the demand we might anticipate as a result of these proposals, particularly if there is an expectation to produce data in relation to metrics Partner Funds may choose to measure against over and above the four mandated in the consultation. A consistent approach across Partner Funds would create opportunities around joint procurement on scenario analysis and data. The proposals are likely to involve significant costs around data acquisition, report preparation and other pressures on resourcing.

We believe this collaborative approach is the best way to build confidence in pooling and further unlock its benefits. We do not believe using additional reporting requirements to drive pooling, or appearing to do so, would be effective. We believe the role of LGPS pools in supporting LGPS funds to meet reporting requirements, on climate change risks and other areas, should be addressed as part of a comprehensive approach to the future of pooling in the LGPS aligning roles, responsibilities and capacity. We therefore urge the Government to move forward with the consultation on the future of the pooling framework as soon as possible.

Question 10: Do you agree with our proposed approach to guidance?

We agree with the principles set out in the consultation however we would welcome a clear timetable for the publication of the guidelines and template, both in order to provide feedback but also given the implementation timeline. We have already expressed reservations about the timeline for implementation and we would urge these to be reviewed if guidance is delayed.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

The reporting and frameworks around climate change and carbon footprinting of investments remain comparatively immature. As such the talent pool in this area is underdeveloped. The

proposals set out in this consultation require the production of annual reports from each of the 89 LGPS funds. Whether from within LGPS funds, LGPS pools or via external advisors, it is highly unlikely there is sufficient talent and capacity within the sector to meet that requirement at this point with the potential for significant recruitment and/or procurement challenges. We are concerned the demand or external consultant support implied by the proposals will drive up costs.

Clear lines of responsibility and delineation of roles and duties is a key part of the TCFD's 'governance' pillar. While ultimate responsibility for managing climate change risks and opportunities lies with LGPS funds, we would like to see the statutory guidance recognise that LGPS funds vary greatly in their degree of reliance on and interaction with advisers: some rely entirely on internal pension teams and managers, whereas others delegate a great deal to external advisers and their pools. We would welcome some flexibility in the statutory guidance to allow LGPS funds to establish and work within a governance framework that best meets their needs.

14

Taking forward the Good Governance Project proposals from the Scheme Advisory Board would be a welcome step in addressing issues around ensuring participants in LGPS Governance have the appropriate knowledge, skills and advice.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

The transition to a decarbonised economy carries with it social risks. This includes risks to workers, communities, supply chains and consumers. Some protected groups are likely to be disproportionately affected, especially regarding employment impacts and as consumers. These impacts are widely accepted, including within the HM Treasury’s Net Zero Review: Analysis exploring the key issues (2021). While the impact of TCFD requirements for LGPS funds alone is unlikely to have a significant impact, the objective of the cross departmental push towards TCFD requirements is intended to support the decarbonisation of the economy. As such, TCFD requirements if effective may have some negative impacts on protected groups. To address the negative impacts, we recommend that TCFD requirements include social considerations within the framework and more broadly that governments, investors and companies are committed to a just transition.

Yours faithfully,

Anna D’Alessandro
Director of Corporate Finance & Commercial

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCE & COMMERCIAL**

SUBJECT: **2022 VALUATION**

SUMMARY OF ISSUE:

This report provides an update on the progress of the 2022 triennial valuation.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee approve the draft Funding Strategy Statement, included as Annexe 1, subject to employer consultation.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee needs to be aware of the activities and outputs of the triennial valuation as this informs employer contribution rates and the investment strategy of the Fund. This is consistent with the Fund's strategic funding objectives.

DETAILS:

Background

1. The Fund actuary, Hymans Robertson, carries out a triennial valuation of the Fund's assets and liabilities. The primary and secondary contribution rates for all employers in the Fund and the accompanying investment strategy are derived from this valuation.

2. Work is underway for the triennial valuation on 31 March 2022 (effective 1 April 2023). Officers will work with Hymans to progress the work on the valuation and report regularly on progress.

Q3 activities

3. Progress is being made on all Q3 activities. Preliminary work has been undertaken by the Actuary on possible rates for the larger employers in the fund.

Stabilisation mechanism remains appropriate	3.1	The results of the modelling exercise suggest the current funding strategy and long-term stabilisation mechanism remain appropriate for the long term secure employers.
Contribution increases are not required	3.2	For rates that will be paid from 1 April 2023 to 31 March 2026, the Fund is in a positive position and contribution rate increases are not required for the long term secure employers.

4. The draft Funding Strategy Statement is provided as the Annexe to this paper.

Funding Strategy Statement provided for review	4.1	The Funding Strategy Statement has been reviewed with a view to finalisation, issuance and consultation in the new year. Hymans has updated the document to restructure this as a new 'core' FSS. This is shorter than the current iteration removing a lot of supplementary explanation and repetition. The restructuring results in a document which is easier for employers to follow. The core and satellite documents comprising the entire FSS will form the basis of the employer consultation early in calendar 2023.

SAB Statement on Employer contributions

5. At its meeting on 10 October 2022 the Local Government Pension Scheme Advisory Board discussed emerging results from the current round of triennial local fund valuations. They issued a statement advising caution around employer contribution rates and emphasising the importance of stability. https://lgpsboard.org/images/Other/October2022_SAB_statement_on_employer_contributions.pdf

6. Our Fund Actuary takes its professional responsibilities very seriously and they adhere to all relevant actuarial standards and has regard for the wider Regulatory environment. They have carefully considered all the factors referred to in the SAB note (and many others) in order to reach the recommendations for employer contribution rates which align with the Fund's appetite for risk and long term funding objectives while reflecting each employer's specific circumstances.

Timetable

7. The key areas of activity for the 2022 actuarial valuation are set out in the table below.

	Timing (financial quarter)	Area
1	Q1 2022/23 and prior	Pre-valuation work: • Planning • Data cleansing • Valuation training (10 December 2021)
2	Q2 2022/23	Actuarial assumptions review Data cleansed and submitted to actuary Funding Strategy Statement review
3	Q3 2022/23	Whole fund funding level report Set contribution rates for major employers
4	Q4 2022/23	Employer results issued to employers Funding Strategy Statement consultation Employer Forum Final valuation report signed off by 31 March 2023
5	1 April 2023	New employer contributions start to be paid

CONSULTATION:

8. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

9. Any relevant risk related implications have been considered and are contained within the report.

15

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

10. Any relevant financial and value for money implications have been considered and are contained within the report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

11. The Director of Finance, Corporate and Commercial is satisfied that relevant, material financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

12. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

13. There are no equality or diversity issues.

OTHER IMPLICATIONS

14. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

15. The following next steps are planned:

    a) Officers to work with the fund actuary to progress the valuation;
    b) The draft Funding Strategy Statement will be finalised and issued for consultation in early 2023; and
    c) Further updates to be brought to the Committee, including the final version of the FSS at the next appropriate meeting.

Contact Officer:
Sara Undre Employer Manager
Paul Titcomb Head of Accounting and Governance

Consulted:
Pension Fund Committee Chairman

Annexes:
Annexe 1: Draft Funding Strategy Statement

Sources/background papers:
None

This page is intentionally left blank

HYMANS ROBERTSON

Surrey Pension Fund

Funding Strategy Statement

MMMM 2022

15

DRAFT

Contents

15

Surrey Pension Fund – Funding Strategy Statement | Page

		Page
1	Welcome to Surrey Pension Fund's funding strategy statement	1
2	How does the fund calculate employer contributions?	3
3	What additional contributions may be payable?	7
4	How does the fund calculate assets and liabilities?	8
5	What happens when an employer joins the fund?	9
6	What happens when an employer leaves the fund?	11
7	What are the statutory reporting requirements?	14

Appendices
Appendix A – The regulatory framework
Appendix B – Roles and responsibilities
Appendix C – Risks and controls
Appendix D – Actuarial assumptions

Policies
Appendix E – Admissions policy
Appendix F – Cessation Policy.
Appendix G – Bulk transfers
Appendix H – Review of contributions between valuations
Appendix I – Prepayments policy
Appendix J – Ill health policy
Appendix K – Town and Parish Council Pool

Effective date	
Date approved	
Next review	

1 Welcome to Surrey Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Surrey Pension Fund.

The Surrey Pension Fund is administered by Surrey County Council, known as the administering authority. Surrey County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

There's a regulatory requirement for Surrey County Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact person@lgpsfund.gov.uk

1.1 What is the Surrey Pension Fund?

The Surrey Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at [link].

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Surrey Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local Authorities, and Police	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	75% / 80% depending on covenant / security	70%	75% if form of security provided 80% otherwise	75% if form of security provided 80% otherwise	70%
Maximum time horizon	20 years	17 years	20 years	Future working lifetime	Future working lifetime	17 years
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	Monetary amount	Monetary amount	% of payroll	Monetary amount / % of payroll	Monetary amount / % of payroll	Monetary amount / % of payroll
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority in specific situations				Preferred approach: contributions kept at primary rate. However, may permit spreading of surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the administering authority		None	None	None

*See Appendix D for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	Surrey County Council	District and Borough Councils	Surrey Police Authority
Maximum contribution increase per year	+1% of pay	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in Appendix H. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The Administering Authority can give consideration to setting up pools for employers with very similar characteristics. This will always be in line with its broader funding strategy. With the advice of the Actuary, the Administering Authority may allow smaller employers of similar types to pool their contributions in order to smooth out the effects of costly events, e.g., ill-health retirements or deaths in service.

CABs that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. TABs are usually also ineligible for pooling. Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Academies who belong to a multi academy trust (MAT) are permitted to pool for contribution rate purposes. New academies have the option to elect to pay contributions initially in line with the MAT that they are joining.

This Town and Parish Council Pool allows the sharing of experience and smoothing out the effects of costly rare events such as death in service for these small employers. It also provides some mitigation against the cliff-edge gilts exit basis calculation at cessation. Full details of the operation of this pool are set out in Appendix K.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, a

change of employer risk category or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the fund's prepayment policy detailed in Appendix I.

15

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

3.2 Pension costs – early retirement on ill-health grounds

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

However, these strains are currently met by a Fund-operated ill health risk management solution. Further detail is set out in the fund's ill health risk management policy detailed in Appendix J.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

The fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

15

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

If two MATs merge during the inter-valuation period, the merged MAT will pay the higher of the certified rates for the individual MAT's.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The fund's admissions policy is detailed in Appendix E.

6 What happens if an employer has a bulk transfer of staff?

Cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

15

The bulk transfer policy is in Appendix G.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is in Appendix F.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The Fund's policy on exit credits is included in the cessation policy document in Appendix F.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The Fund's policy on employer flexibilities is included in the cessation policy document in Appendix F.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond the DDA/DSA they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

The assets allocated to such employers are likely to be invested in line with the 'exited employers' investment strategy. For further details, see the Investment Strategy Statement.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?
The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation
Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included:

- A draft version of the FSS was issued to all participating employers on DATE for comment.
- The draft FSS was accompanied with a statement setting out he impact of variations from the previous funding strategy.
- Comments were requested within 30 days.
- There was an Employers Forum on DATE at which questions regarding the FSS could be raised and answered.
- Following the end of the consultation period the FSS was updated where required and then published on DATE.

A3 How is the FSS published?
The FSS is made available through the following routes:

- Publishing on the fund website.
- A copy is sent by email to each participating employer in the Fund.
- A copy is included in the fund annual report and accounts.
- Copies can be sent to independent advisors

- Copies are available on request.

The FSS is published at [URL].

A4 How often is the FSS reviewed?
The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?
The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

The fund's Investment Strategy Statement (ISS) includes full details of the employer investment strategies that apply.

You can see all fund documentation at [URL].

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the terms of reference available at the following link: [08 - Local Pension Board - Annexe 1.pdf (surreycc.gov.uk)]

Details of the key fund-specific risks and controls are below.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance. Operation of three investment strategies to meet needs of a diverse employer group.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees' declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	From 1 April 2019 the Fund will operate a form of internal insurance whereby any ill-health early retirement strain costs are in effect spread among all employers
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.
Time, cost and/or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • Seeking a funding guarantee from another scheme employer, or external body, where-ever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Where permitted under the regulations requiring a bond to protect the Fund from various risks. • Requiring new Community Admission Bodies to have a guarantor. • Reviewing bond or guarantor arrangements at regular intervals. • Reviewing contributions well ahead of cessation if thought appropriate.
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	{Detail of initial covenant assessment}	{Detail of monitoring arrangements}
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	{Detail of initial covenant assessment}	{Detail of monitoring arrangements}
Designating employers	{Detail of initial covenant assessment}	{Detail of monitoring arrangements}

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. The fund included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns										
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Multi Asset Credit (sub inv grade)	Global High Yield Debt
10 years	16th %'ile	0.8%	-1.9%	-0.3%	-0.4%	-0.7%	-1.2%	-0.6%	-2.5%	0.7%	1.7%	0.6%
	50th %'ile	1.8%	0.2%	1.1%	5.7%	5.6%	9.4%	4.4%	5.8%	5.9%	3.5%	3.4%
	84th %'ile	2.9%	2.4%	2.4%	11.6%	11.7%	20.1%	9.5%	14.4%	11.2%	5.2%	5.8%
20 years	16th %'ile	1.0%	-1.5%	0.7%	1.7%	1.5%	2.4%	1.4%	0.1%	2.6%	2.8%	2.1%
	50th %'ile	2.4%	0.1%	1.5%	6.2%	6.1%	10.0%	5.0%	6.3%	6.5%	4.4%	4.2%
	84th %'ile	4.0%	1.9%	2.2%	10.6%	10.8%	17.6%	8.9%	12.8%	10.6%	6.0%	6.4%
40 years	16th %'ile	1.2%	-0.3%	1.5%	3.2%	3.1%	4.7%	2.6%	2.1%	3.9%	3.6%	3.1%
	50th %'ile	2.9%	1.2%	2.3%	6.7%	6.5%	10.3%	5.5%	6.8%	7.0%	5.3%	5.1%
	84th %'ile	4.9%	3.1%	3.5%	10.2%	10.2%	16.1%	8.8%	11.7%	10.3%	7.1%	7.2%

		Inflation (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	2.4%	1.6%	-1.7%	1.1%
	50th %'ile	4.1%	3.3%	-0.5%	2.5%
	84th %'ile	5.7%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.6%	1.2%	-0.7%	1.3%
	50th %'ile	3.1%	2.7%	1.1%	3.2%
	84th %'ile	4.7%	4.3%	2.7%	5.7%
40 years	16th %'ile	1.1%	0.9%	-0.6%	1.1%
	50th %'ile	2.4%	2.2%	1.3%	3.3%
	84th %'ile	3.9%	3.7%	3.2%	6.1%

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 40 years our model expected the 17 year maturity annualised real (nominal) interest rate to rise from -2.2% (1.9%) to 1.3% (3.3%).

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.2%
Low-risk exit basis	Community admission bodies closed to new entrants	0.0%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the fund

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.4% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the fund's assets will future investment returns of 4.4% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	55% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0% of members will choose the 50:50 option.

Males (incidence per 1000 active members per year).

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females (incidence per 1000 active members per year).

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
- The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
- Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the fund.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 DECEMBER 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **LGPS UPDATE (BACKGROUND PAPER)**

SUMMARY OF ISSUE:

1. This report considers recent developments in the LGPS.

RECOMMENDATIONS:

2. The Pension Fund Committee is asked to note the content of this report:

REASON FOR RECOMMENDATIONS:

3. The report provides background information for the Committee.

DETAILS:

4. The report provides background information for the Committee.

Highlights

5. **Cost-of-living issues** – We are monitoring member take-up of opt-outs and 50:50 pension benefits. We have produced an information video and are aware of the heightened risk of pension scammers in the current environment. More information can be found in points 11, 21, and 42.

6. **McCloud** – Further consultation expected early 2023 on the draft Regulations for the LGPS to implement McCloud, with final regulations being laid by October 2023. In addition to this further work will need to be done for Teachers Pension Scheme members who may be entitled to LGPS membership for the 'remedy period'. More information can be found in point 14.

7. **Pensions Dashboards** – confirmation frozen refunds not in scope. More information on the dashboards can be found in points 25 to 32.

8. **Colleges** - possible reclassification of colleges and provision of guarantee akin to Academies. More information can be found in point 17.

9. **Climate-related risks** - consultation launched on proposals to require LGPS administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate related Financial Disclosures (TCFD). More information in point 15.

10. **Death benefits** - request sent to DLUHC for changes to the LGPS regulations relating to payment of Death Grants beyond the age of 75 and equalisation of spouse's benefits. More information in point 18.

16

LGPS updates

11. A new FAQ has been added to the main LGPS member website which considers whether a member's pension is affected by uncertainty in the financial markets.

12. The Department for Education (DfE) published an updated version of its policy paper on the academy guarantee together with a departmental minute on the issue.

13. The LGPS Governance Conference 2023 takes place on 19 and 20 January at the Cardiff Marriott Hotel and can be attended in person or online, although early booking is recommended for attending in person. The conference is aimed at elected members and others who attend pension committees/panels and local pension boards. The conference flyer contains an updated programme with confirmed speakers.

Department for Levelling Up, Housing and Communities (DLUHC)

14. The implementation of the McCloud remedy in the Teachers' Pension Scheme (TPS) will mean some teachers will be retrospectively eligible for the LGPS covering the period from 1 April 2015 to 31 March 2022. The TPS did not move to being a CARE scheme until 1 April 2015, prior to which it was final salary. For the TPS implementing the McCloud remedy, members affected will be put back into the 'legacy' scheme (final salary) from 1 April 2015 to 31 March 2022 (remedy period) and then moved across to the 'reformed' scheme (CARE scheme) from 1 April 2022. Upon members taking payment of their benefits, they will have the option of taking the benefits built up during the 'remedy period' as either 'legacy' or 'reformed' benefits, this will be known as the Deferred Choice Underpin (DCU). Under the TPS 'legacy' scheme if a teacher has a full time role as well as a part time teaching role, the part time role was not pensionable under the 'legacy' scheme and will be classed as 'excess service'. Where the employer offers the LGPS, the teacher would have been eligible to join the LGPS in relation to the part time role. Under the 'reformed' scheme (CARE) both full time and part time roles are pensionable in the TPS. Teachers affected by this 'excess service', which is estimated to be around 18,000 and is a mix of active, deferred and pensioners, will need records/benefits created in the LGPS. If the member already holds LGPS membership, this will not be affected. Teachers who remain or restart employment after 31 March 2022, will have the option of transferring the LGPS 'excess service' to the TPS. Due to the considerable work this will involve, the LGA will be working with DfE and DLUHC to agree a process for dealing with these cases and the DfE and DLUHC will consult on how this will work in practice in due course.

15. DLUHC have launched a consultation called Governance and reporting of climate change risks. This is seeking views on proposals to require administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures. Following the launch of the consultation the Scheme Advisory Board emailed administering authorities inviting them to complete a survey on the upcoming climate risk reporting regime so that they may better understand readiness or apprehension about the proposed changes, in addition to helping shape the SAB's response to the consultation.

16. DLUHC have published the LGPS statistics for England and Wales 2021/22. Highlights include:

   - Total expenditure of £14.4 billion, an increase of 6.6% from 2020/21.
   - Employee contributions of £2.6 billion, an increase of 4.8% from 2020/21.

- The market value of LGPS funds on 31 March 2022 was £364 billion, an increase of 8%.
- Total income of £15.9 billion, a decrease of 8.1% from 2020/21.
- Employer contributions of £7.8 billion, a decrease of 24.3%.
- There were 6.3 million scheme members on 31 March 2022; 2 million active, 1.9 million pensioners and 2.3 million deferred members.
- There were 94,724 retirements in 2021/22, an increase of 14.2% compared with 2020/21.

The decrease in total income and employer contributions is common in the final year of the three-year valuation cycle, due to employers making early payment of contributions in the previous two years.

Scheme Advisory Board (SAB)

16

17. A request has been sent to managers at administering authorities on behalf of DLUHC and the SAB following a request from the Department of Education (DfE) for additional data on colleges. This is in relation to the Office for National Statistics (ONS) announcement that Further Education, Sixth Form Colleges and Designated Institutions in England will review their classification, currently they are classified as part of the private sector. The data will be used to better understand colleges funding requirements and consider the merits of providing additional covenant measures, such as a guarantee like that provided to academies. However, this work does not mean that a guarantee will automatically apply. DfE wish to consider the options available in the Autumn.

18. The Chair of the SAB sent a letter to the LGPS Minister, recommending amending the regulations on death grants and survivor benefits. The letter expressed concern about continuing to limit the death grant payment to members who die before the age of 75 and that this restriction poses risk of legal challenge and should therefore be removed. The letter also reminded the minister that the LGPS rules on survivor benefits have not yet been amended to reflect the Goodwin judgement, together with reminding about a previous recommendation of removing all differences in survivor benefits from a time to be agreed rather than retrospectively.

19. The Chair has also sent a letter to the LGPS Minister, asking for an update on the Fair Deal consultation which ran from 10 January 2019 to 4 April 2019.

20. The SAB have issued a survey on funding strategy statement guidance, commissioned by the Compliance and Reporting Committee. This seeks opinions on the funding strategy statement guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).

21. The SAB have requested data from administering authorities on the number of members opting out or moving to the 50/50 section of the scheme to allow them to understand the extent the cost-of-living crisis is changing member's behaviour. The exercise is then likely to be repeated early next year and again in Spring 2023.

HM Treasury (HMT)

22. HMT launched a consultation on 8 August 2022 on public sector exit payments which closed on 17 October 2022, the proposals will apply to Central Government and not local authorities or bodies under devolved administrations, but will apply to academies. This would introduce an expanded approval process for employee exits and special severance payments where the payment is more than £95,000. This payment would include relevant statutory, contractual or discretionary payments (so would include any strain cost if an LGPS member aged 55 or over, leaves due to redundancy or efficiency. A further approval would also be needed if special severance payments (payments in excess of contractual obligations) are to be offered. If payments are made above the £95,000 then these would need to be reported to HMT. The SAB have responded to the consultation.

16

HMRC

23. Published newsletter 143 which includes confirmation that the Government has decided against introducing a new reportable event for certain public service pension schemes from April 2023. The newsletter also confirms that HMRC expect to release the event report for 2023/24 on the Managing pension schemes eservice in summer 2023 which they had previously hoped to release in Spring 2023.

Department of Work and Pensions (DWP)

24. On 1 August 2022 Collective Money Purchase Schemes (also known as Collective Defined Contribution or CDC schemes) were launched and applications opened to the new type of pension scheme. They are designed to provide improved retirement returns for savers along with more predictable costs for employers.

Pensions Dashboard Programme (PDP)

25. The DWP have confirmed that frozen refunds are out of scope for the initial dashboards as they are not considered to be member benefits. It may be at some point in the future they will be included.

26. The Pensions Administration Standards Association (PASA) have published Guidance on Value Data for pensions dashboards which includes a checklist of steps that scheme administrators can take now. This is to help administrators understand what the Value Data requirements mean, identify any gaps in data that may exist and options for filling those gaps, along with work that can be undertaken in advance of schemes staging dates. PASA have also updated their guidance on Data Matching Conventions.

27. The DWP published draft guidance on applying to defer the staging date together with a template application form. Once the dashboard regulations come into force they will issue final guidance.

28. DWP have laid a draft of The Pensions Dashboard Regulations 2022 before each House of Parliament.

29. DWP have responded to the further consultation on dashboards, this confirmed that there will be an increase from 90 days to 6 months where schemes will be given notice of the point that the Dashboards will be available to the public, known as the Dashboard Available Point (DAP).

30. PDP published an update on the program which outlines the next three steps for early participants (those who volunteered to help with testing and development) connecting to the pensions dashboards ecosystem.

31. PDP published their sixth progress update report. PDP have also published the results of the research carried out by Ipsos into the value that people attach to pension dashboards and their likelihood of using them.

32. PDP have also published two videos on 'Get you data ready for pensions dashboards' and 'An introduction to find and view data'.

The Pensions Regulator (TPR)

33. TPR has published a new strategy to compensate pension scams, which sets out their plan to combat scams which includes; educating industry and savers on the threat of scams, prevent practices which can harm savers' retirement outcomes and fight fraud through the prevention, disruption and punishment of criminals.

34. TPR have published a press release warning employers to ensure they are complying with their automatic enrolment duties. This is as a result of in-depth compliance inspections with more than 20 large employers earlier in the year where TPR found several common errors relating to calculating pension contributions and communications to staff. The employers involved were from the transport, hospitality, finance and retail sectors.

35. TPR has published:
    - A revised enforcement policy, setting out TPR's approach to investigating cases and any subsequent enforcement action. It is web-based and divided into standalone chapters, each with links to other relevant documents and consolidates previous policies.
    - An updated prosecution policy, which has been brought up to date and explains how TPR will approach prosecuting workplace criminal offences.
    - A new enforcement strategy, which sets out the overarching aims of TPR's enforcement work and provides an insight into the framework TPR applies when selecting cases for enforcement action.

36. TPR has published an extract of a speech they delivered, titled 'Looking Ahead: Regulating for the Saver', at the Pensions and Lifetime Savings Association (PLSA) conference. This covered a range of issues including dashboards, liability-driven investments and the cost-of-living crisis.

The Pensions Ombudsman (TPO)

37. TPO have published their corporate plan for 2022 – 2025 which outlines TPO's key performance indicators, strategic goals, priorities for the period and actions required to deliver those priorities.

16

Other news and updates

38. The Supreme Court has ruled in favour of a zero hours contract worker who worked on a term-time only contract within a school and the calculation of their holiday pay. The Harper Trust v Brazel case also has implications for those who work varying hours during only certain weeks of the year but with a continuing contract. LGPS employers may wish to review their policies on the calculation of holiday pay in light of the case as well as whether any backdated payments are due.

39. The government has launched the Public Sector Fraud Authority (PSFA) to tackle fraud committed against public funds. They will work with public bodies to test their defences and help them build stronger safeguards.

40. A supplementary consultation has been published by the government relating to the consultation on reform of the Civil Service Compensation Scheme 2017 which has been ongoing since 2017. This is seeking views on reforms to the Civil Service Compensation Scheme which includes; changes to the maximum payments made under compulsory redundancy, voluntary redundancy and voluntary exit, allowing employer-funded top-up to pension from age 56 to track ten years behind the State Pension Age and clawback arrangements for those returning to the organisation within six months of receiving a compensation payment. Whilst this does not apply to local government, it is expected that DLUHC will be looking at limits to exit payments for LGPS members with amendments to regulations.

41. The High Court has dismissed a challenge against Retail Price Index (RPI) reform. The judicial review claim was brought about by British Telecom, Ford and Marks & Spencer pension schemes as a result of the UK Statistics Authority's decision to align the RPI with a housing cost-based version of the Consumer Price Index (CPI) from 2030.

42. The Financial Conduct Authority (FCA) issued a press release warning that the cost-of-living-crisis could cause an increase in pension scams. This comes following research that suggests a quarter of consumers would consider withdrawing money from their pension earlier than planned to cover the cost of living, making them vulnerable to pension scammers.

43. The Financial Reporting Council (FRC) have published version 5.0 of the Actuarial Standard (AS) TM1 which specifies the assumptions and methods to be used for calculating statutory money purchase illustrations (SMPIs). SMPIs are included in Annual Benefit Statements and whilst this does not apply to Defined Benefit schemes, it will apply to the LGPS AVCs. The aim is to make pension projections more consistent and reliable when values are shown on the pension dashboards and will apply to illustrations/statements issued on or after 1 October 2023.

44. The Government Actuary's Department (GAD) have published a blog on liability driven investments (LDIs). The blog explains what LDI is and the recent issues with this type of investment during market volatility.

45. CPI for September 2022 has been announced as 10.1%, whilst it has been confirmed that the State Pension will retain the triple lock and increase in April by 10.1%, Government confirmation will be required for the pensions increase and revaluation that apply to LGPS members for active pension accounts, deferred pensions and pensions in payment.

CONSULTATION:

46. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

47. None.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

48. None.

16

DIRECTOR OF CORPORATE FINANCE COMMENTARY

49. The Director, Financial and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

50. None.

EQUALITIES AND DIVERSITY

51. There are no equality or diversity issues.

OTHER IMPLICATIONS

52. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

53. No next steps are planned

Contact Officers:

Sandy Armstrong	Technical Manager
Paul Titcomb	Head of Accounting and Governance

Consulted: Pension Fund Committee Chairman

Annexes:

None

Sources/background papers:

None

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

18

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

18

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank