BORDER TO COAST PENSIONS PARTNERSHIP

ANNUAL RESPONSIBLE INVESTMENT REPORT 2018-19

BORDER TO COAST PENSIONS PARTNERSHIP

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AT A GLANCE

267 TOTAL NUMBER OF MEETINGS

3,076 RESOLUTIONS VOTED GLOBALLY

494 ENGAGEMENTS

GAINED FRC **TIER 1 STATUS**

CO-FILED FIRST SHAREHOLDER RESOLUTION

THREE ENGAGEMENT TOPICS

- GOVERNANCE
- TRANSPARENCY AND DISCLOSURE
- DIVERSITY

CEO'S MESSAGE

Responsible Investment is one of Border to Coast's core values: it is only by investing in a sustainable way over the long-term that we will deliver our objective of making a difference to long-term, risk-adjusted investment outcomes for Local Government Pension Funds.

Over the last twelve months we have established strong foundations in voting, engagement and collaborations with other asset owners and managers. For us, Responsible Investment is about investing for a future world, one that has to be planned for, risks considered and mitigated, and opportunities taken.

Location: Cumbria

Rachel Elwell
CEO Border to Coast

AT BORDER TO COAST WE ARE CLEAR ABOUT THE ROLE WE PLAY IN HELPING OUR TWELVE LOCAL GOVERNMENT PENSION SCHEME (LGPS) PARTNER FUNDS MEET THEIR OBLIGATIONS TO MORE THAN ONE MILLION PENSIONERS, 2,500 LOCAL EMPLOYERS AND MILLIONS OF TAXPAYERS.

Our purpose is to make a difference to long-term risk-adjusted investment outcomes for our Partner Funds. We will do this through pooling to create a stronger voice, working in partnership to deliver cost-effective, innovative, and responsible investment now and into the future.

Long-term sustainable returns require long-term investment horizons, for both our internal investment teams and external partners. Responsible Investment ('RI') is central to our corporate and investment philosophy. This means holding companies to account on environmental, social and governance ('ESG') issues with the potential to impact corporate value, and practising active ownership across all asset classes. And it means trying, sometimes failing but always learning, to live ourselves what we require from the companies in which we invest and with whom we partner.

Ultimately, under the LGPS regulations, accountability for stewardship, including shareholder voting, remains with our Partner Funds. Border to Coast and our Partner Funds have worked hard to establish a shared understanding of Responsible Investment, now set out in a common Responsible Investment Policy and Corporate Governance and Voting Guidelines. We are very aware of the responsibility and trust placed in us through the delegation of the day-to-day implementation of this policy; and we appreciate our Partner Funds' support, which has helped us make significant progress in this important strategic area over our first twelve months of operation. Further information on the key aspects of our policy can be found on page 17.

To build on the good work already started by our Partner Funds, we are keen to establish strategic relationships with like-minded, experienced and well-established investors who can support us in our development. I was delighted during 2018 to appoint Robeco Asset Management as our engagement and voting partner following a robust procurement process. We particularly liked Robeco's structured approach to engagement, with significant research prior to the adoption of engagement themes, and success milestones clearly stated and monitored. Like any investment tool, engagement must be assessed for its effectiveness and lessons learned to improve impact. We were also able to lean on Robeco's global presence to vote all our holdings, and embed their engagement findings in our internal investment process. More about this can be found in our Engagement Report on page 8 and our Voting Report on page 14.

2018-19 has seen some significant achievements including voting globally; working with our internal portfolio managers to integrate ESG into our investment process; incorporating ESG into our external manager procurement; undertaking a major review of our RI policies in collaboration with our Partner Funds, while continuing to support them on RI; gaining Tier 1 status from the FRC for our Stewardship Code; and starting to make Border to Coast's voice heard as a responsible investor in collaboration with other large institutional investors. Further information is included in the rest of this report and on the Sustainability page on our website.

As a new investment collaboration at the interface between the public and private sectors, we believe it is possible to forge a more transparent and responsible approach to investing. Our challenge is to develop with our Partner Funds a shared approach that delivers long-term shareholder value. This will require us to recognise the cultural changes which have been coming for some time and which will impact capital flows and the ways markets, regulation and policy-making work now and into the future.

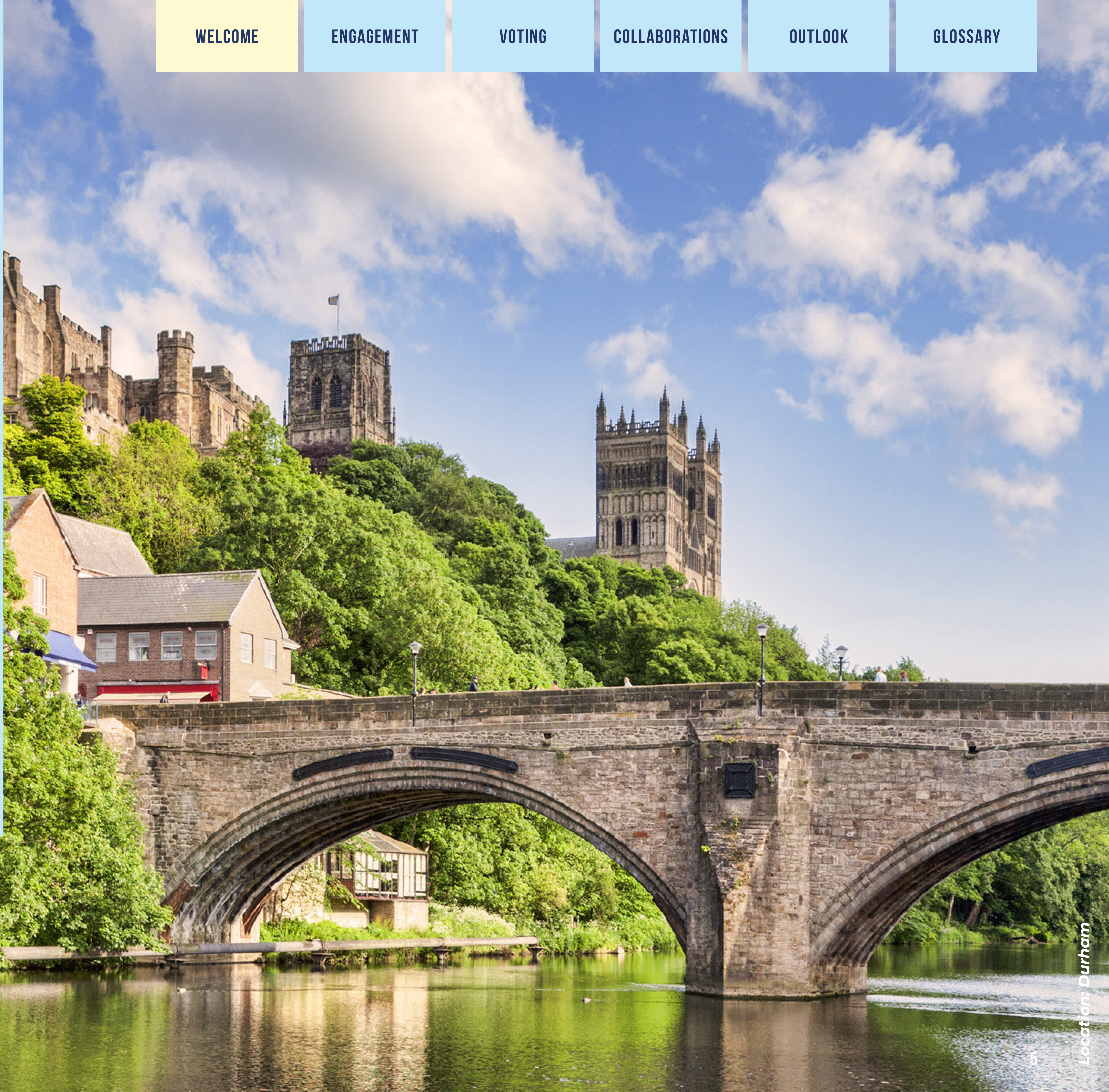
Recent actions highlight increasing customer concerns about issues such as the ethics of the supply chain, with young people in particular deeply engaged with the world's future and prepared to stand up and be the difference needed to demand action from policy-makers. A future where, I hope, our investment system will help investors gain returns, promote wellbeing for societies and individuals, and encourage action to tackle climate change, address inequality and promote enhanced governance standards in finance and business.

I am delighted to present our first annual Responsible Investment Report, and look forward to engaging with our Partner Funds, our portfolio investments, the asset management industry, policy-makers and others in this important area in the coming months and years.

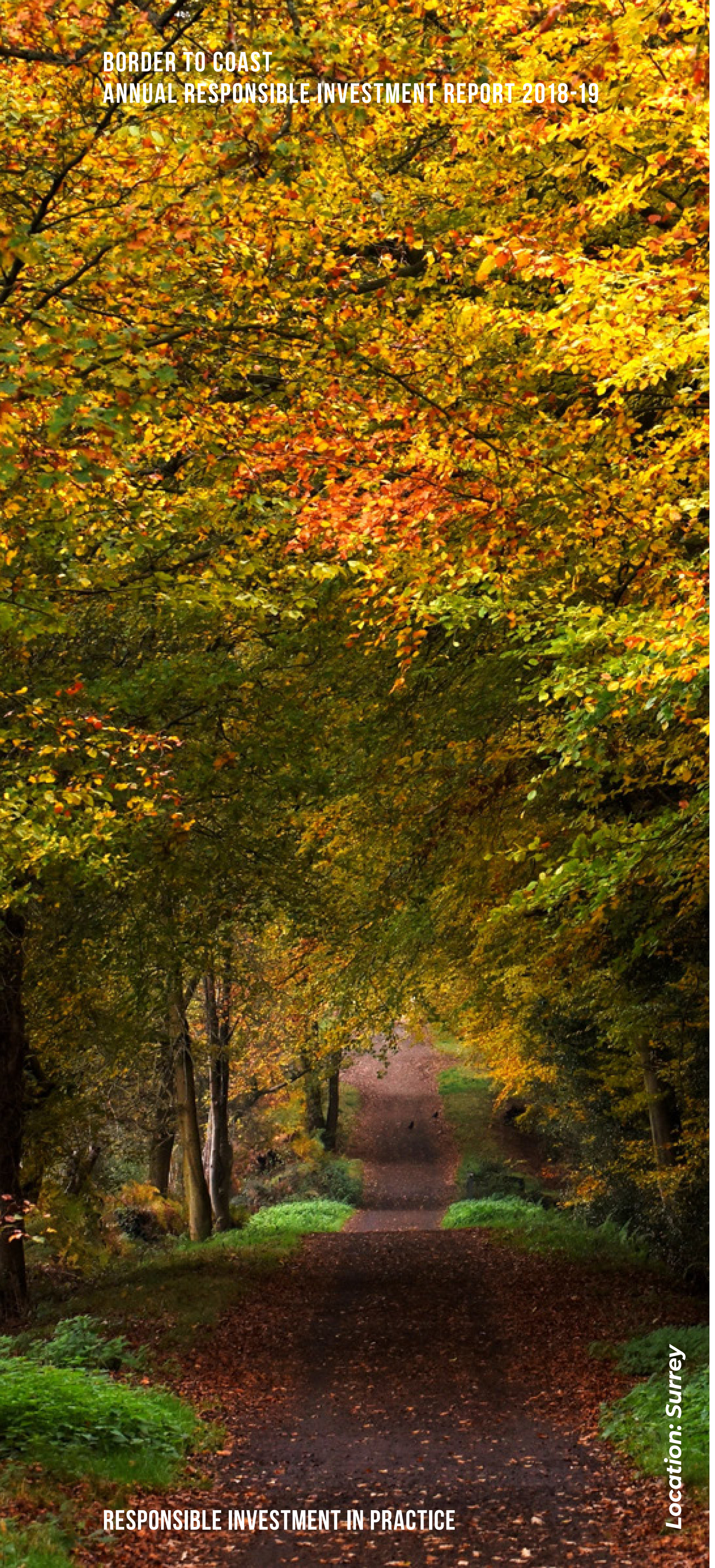
Rachel Elwell
CEO Border to Coast

RESPONSIBLE INVESTMENT IN PRACTICE

To truly be Responsible Investors, we need to embed long-term thinking into our day-to-day processes, investment decisions and interactions with companies, other asset owners and asset managers, and with regulators and policymakers.



Location: Durham



MESSAGE FROM DANIEL BOOTH, CHIEF INVESTMENT OFFICER

Daniel Booth
Chief Investment Officer

At the core of our investment beliefs is the thinking that investing in sustainable companies and practising active stewardship will make a positive difference to long-term investment outcomes for our Partner Funds.

We have embedded environmental, social and governance ('ESG') factors into our investment process, and note the increasing empirical evidence to support the positive performance of active engagement. ESG factors cover a wide spectrum of issues, many not included in traditional financial analysis, but they can have significant impact on a company's financial performance and profitability. We are witnessing rapid changes in consumer behaviour (e.g. growth of meat-free companies) and technology shifts (with future cost parity across renewable energy and electric vehicles) which, combined with increasing regulatory focus (such as European carbon tax credits), will have profound impacts on the structures of many industries.

Our internal portfolio managers consider ESG factors in combination with traditional financial analysis to help them identify broader risks and opportunities to generate sustainable long-term returns. We are integrating ESG into all asset classes as new investment funds are launched.

For externally managed assets we are working with and closely monitoring our appointed asset managers on ESG-related issues.

We work with third-party specialist ESG research and engagement providers including Robeco, Bloomberg, MSCI and RepRisk, in addition to our own analysis and research.

We are regulated by the Financial Conduct Authority and therefore required to disclose our commitment to the Financial Reporting Council's UK Stewardship Code. We are very proud to report that our Stewardship Code compliance statement has been categorised as Tier 1 for asset owners, alongside a number of our Partner Funds. To further demonstrate our commitment to Responsible Investment we aim to become a signatory to the Principles for Responsible Investment during 2019.

MESSAGE FROM JANE FIRTH, HEAD OF RESPONSIBLE INVESTMENT

Jane Firth
Head of Responsible Investment

Responsible Investment is at the core of our corporate and investment thinking. We believe effective active ownership leads to superior long-term returns; this includes holding companies to account on environmental, social and governance issues across all asset classes. There is ever-increasing evidence for ESG factors' influence over long-term returns, making it essential for us to embed ESG into the investment process.

Border to Coast Pensions Partnership went live in July 2018 with the first assets transitioned across from our LGPS Partner Funds, and we have achieved a great deal in this Responsible Investment area in a relatively short space of time:

- We appointed Robeco as our Voting and Engagement Partner to vote our global holdings and engage with companies on our behalf
- We worked with our internal portfolio managers to integrate ESG into the investment process, taking a holistic approach by combining financial and ESG analysis to strengthen the decision-making process
- We put Responsible Investment Policies in place ahead of launch, with the first annual review in collaboration with our Partner Funds undertaken during the year
- ESG was included in the external manager procurement process, with relationships built with managers pre- and post-appointment
- We supported our Partner Funds on Responsible Investment and ESG
- Our UK Stewardship Code compliance statement gained Tier 1 status from the FRC
- Climate Change Working Party established
- We co-filed our first shareholder resolution at the BP AGM

As a pool of twelve Partner Funds with combined assets of more than £45bn, we have a much stronger voice and greater ability to influence investee companies. To further increase that influence we are working collaboratively with other like-minded investors and bodies by actively supporting investor RI initiatives.

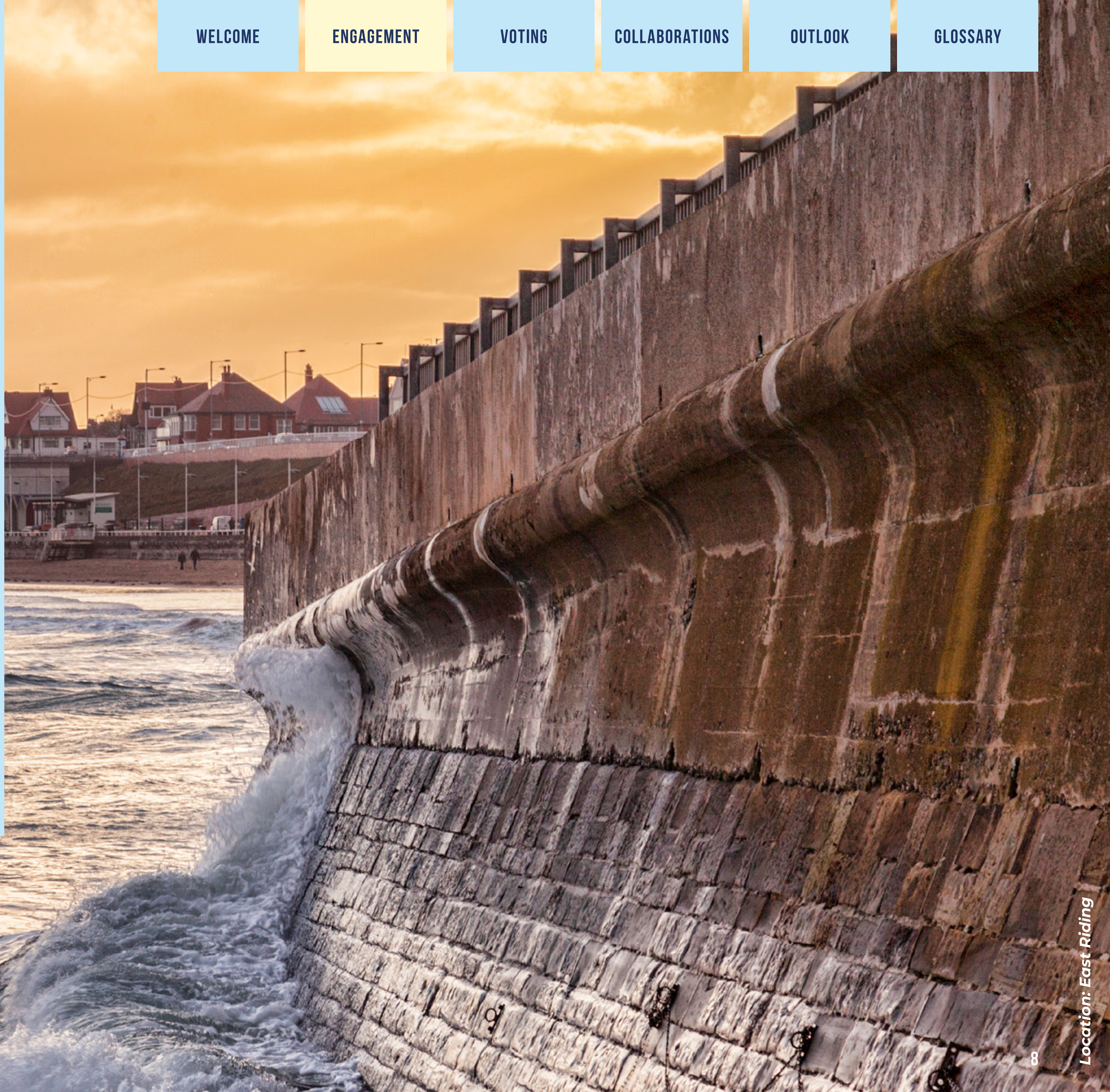
Areas of focus for us this year are Governance, Transparency and Disclosure, and Diversity. This is reflected in the RI initiatives we are supporting, which include the 30% Club Investor Group, Climate Action 100+, Task Force on Climate-related Financial Disclosures, Workforce Disclosure Initiative, the Institutional Investor Group on Climate Change, and the Investor Mining and Tailings Safety Initiative. As a pool we also this year became a member of the Local Authority Pension Fund Forum ('LAPFF'), with Chris Hitchen, our Chair, voted onto the Executive. In line with our focus on transparency and disclosure, we signed up to the LGPS Advisory Board Code of Transparency to demonstrate our commitment to transparent reporting of costs for our Partner Funds.

We have another exciting and challenging year ahead. New sub-funds will be launched in other asset classes and we will continue to work on integrating ESG into the investment processes across all our investments. We are committed to becoming a signatory to the Principles for Responsible Investment later in 2019, and working to ensure we will be prepared.

ENGAGEMENT

Border to Coast believes that the best way to influence companies is through engagement; our policy is that we will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken is to influence companies' governance and environmental policies by constructive shareholder engagement and the use of voting rights.

During 2018-19 we engaged in different ways with the companies in which we invest across our main themes of Governance, Transparency and Disclosure, and Diversity. Investing commenced in July therefore this report does not capture a full year's data.



Location: East Riding

As a long-term investor and representative of asset owners, we practise active ownership by holding companies and asset managers to account on ESG issues that could impact corporate value. We believe engagement is an important component of active ownership, and our engagement strategy includes several different strands to engaging with our investee companies:

1. Robeco, as our voting and engagement provider, engages on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally
2. Our internal portfolio managers engage directly with companies within their portfolios
3. External managers engage with companies held within our externally managed funds
4. We believe we can increase our voice even more by working with other like-minded shareholders, and have joined a number of RI initiatives compatible with our aims and beliefs
5. LAPFF conducts company engagement on behalf of its members on a wide range of issues

Engagement Themes

Given the breadth of potential Responsible Investment issues, we recognise that we can be more effective by focusing on specific areas. During 2018-19 Border to Coast chose to concentrate on three main ESG areas: governance, transparency and disclosure, and diversity. We look in greater detail at examples of each of these areas below.

Although we have specific focus areas for engagement, our relationship with Robeco and our membership of LAPFF allow us to engage more widely across our global portfolios.

Robeco undertakes active engagement on our behalf across twenty different ESG themes, including corporate governance, climate action, tax accountability and cyber security, on our global holdings. Engagement also takes place with companies that have breached the United Nations Global Compact Principles. Some notable achievements have been made in company engagements, probably the most significant being in encouraging Royal Dutch Shell to significantly strengthen its measures to reduce its carbon footprint (see page 13). Robeco is also increasingly focusing on integrating the Sustainable Development Goals into engagement activities. Robeco's engagement is covered in greater detail in their Active Ownership Client Reports, which can be found on our website.

We are also members of LAPFF, which engages across different ESG themes on behalf of its members. Themes covered complement and, in some instances, overlap and strengthen the engagements undertaken by Robeco and Border to Coast. Areas covered include employment practices, anti-bribery and corruption, climate risk, board composition and human rights.

Governance

Good governance is at the core of any successful business. High standards of corporate governance tend to feed through to good management of environmental and social factors. Company boards should adhere to standards of good practice in relation to issues such as leadership, effectiveness, accountability, relations with stakeholders and remuneration.

The Executive remuneration policy is one of the instruments companies use to guide, evaluate and reward the behaviour and achievements of executives. It is therefore in the interests of a company, its shareholders and other stakeholders to have an appropriate remuneration policy in place for executives.

Over many decades it has been argued that the design of executive remuneration structures impacts top management's focus, risk appetite and decision horizon. An appropriately structured remuneration policy should align executive pay with company strategy, by incentivising executives to create long-term, sustainable shareholder value.

A number of criteria should be fulfilled in any compensation plan. For example, an appropriate balance must be struck between fixed and variable compensation, and short- and long-term performance. Performance must be measured over a period long enough to capture success or failure in building long-term shareholder value. A portion of compensation must also be truly 'at risk' to appropriately align pay with performance, including reduced pay-outs when the company underperforms peers. Targets used for variable compensation should be sufficiently challenging to incentivise added value and outperformance.

Governance Engagement Example: European Logistics Company Executive Remuneration

Reason for engagement: Following significant shareholder opposition to the company's executive compensation plan at their 2018 AGM, engagement was undertaken with the company to improve disclosure and transparency around executive pay.

Objectives: Revise executive remuneration policies and approaches, disclosure and transparency.

Scope and process: Following the 2018 AGM, consultations with shareholders took place with both the company's remuneration committee and the independent consultant involved in formulating their new remuneration policy. The main points covered in these discussions were published on the company's website and were considered when drafting the new remuneration policy.

Concerns were highlighted regarding the increase in the base salary of the incoming chief executive officer and its potential compounding effect. Other topics discussed were the inappropriate buy-out award to the incoming CEO, and the excess of non-financial metrics relating to the annual bonus.

Although full details of the new remuneration plan have not been publicly disclosed, partial information was made available, feedback invited, and positive amendments suggested by the remuneration committee incorporating several recommendations made were implemented.

Engagement outcome: The company is currently considering a number of positive changes to its remuneration plan, and disclosure around it, to be put in place before its 2019 AGM: heartening evidence of its efforts to align executive and shareholder interests. More detailed information is anticipated before the next shareholder meeting.

WHILE ENGAGEMENT WITH BOTH POLICY-MAKERS AND PORTFOLIO COMPANIES TO IMPROVE BOARD INDEPENDENCE AND QUALITY CONTINUES, IT IS IMPORTANT NOT TO UNDERESTIMATE CULTURAL/STRUCTURAL BARRIERS, OR LACK OF COMPELLING INCENTIVES FOR MEANINGFUL REFORM. COLLECTIVE ACTION AMONG INVESTORS CAN HELP ENHANCE REAL INFLUENCE.

Location: Northumberland

Diversity

Diversity on boards and within an organisation is important to ensure that a company is sustainable. There is growing evidence that more diverse boards result in better-performing companies, leading to better investment returns and financial outcomes for investors.

A common argument is that boards with people from different backgrounds are more likely to approach issues from various perspectives, leading to better-informed decision-making and more effective supervision. Recent studies by both Robeco and Morgan Stanley have supported this view by demonstrating the connection between gender diversity and financial performance, with the former finding companies with more diverse boards better equipped to outperform, the latter revealing that the stocks of American companies with the best scores on diversity beat those scored worst by 2.3% on a monthly annualised basis over five years.

These are just the latest in a plethora of recent academic studies which have found board diversity closely correlated with a wide range of factors such as greater creativity and understanding of a market place, increased access to resources, and different perspectives, career incentives, increased competitiveness in tendering for contracts, and stakeholder legitimacy.

A Spencer Stuart survey found that in 2017, half of the incoming directors on S&P 500 boards were women or from minorities. Government intervention in this area has increased, with several countries including India and France adopting legislative measures to promote gender diversity at board level through mandatory gender quotas. Diversity is clearly a prime candidate for active ownership approaches through voting and engagement.

However, voting needs to follow a thorough assessment of the overall board diversity in terms of tenure, skills, gender and external commitments, with comparison to local best practices – a factor playing an increasing role in voting guidelines.

It is important to remember that board diversity is not just about gender but also increasing the representation of ethnic minorities on boards.
The Parker Review and report recommendations of 2017 urged businesses to improve the ethnic and cultural diversity of boards to reflect the communities they serve and their employee base, proposing that FTSE 100 companies have at least one director from an ethnic minority background by 2021.

The last couple of years have seen a surge in gender-related shareholder resolutions, particularly in the US, including requests for gender pay gap or employment diversity reports to enhance diversity at the board level. Receiving on average 28% of votes in favour, these send clear signals to companies on the relevance of the topic for a large proportion of shareholders, incentivising serious efforts to address it. Enhanced disclosures on workforce gender diversity and remuneration opportunities should benefit shareholders; failure to address such matters could present significant legal, reputational, and retention concerns for companies.

Diversity Engagement Example: European Oil and Gas Company

Reason for engagement: The company was identified as a target for engagement due to a poor level of gender diversity at board level.

Objectives: To improve board diversity and gain commitment to having 30% of female directors on the board.

Scope and process: A letter was sent requesting a meeting to discuss board governance around nomination and succession planning, particularly in relation to diversity. A meeting was held with the company and shareholders to discuss the approach to diversity and inclusion.

Engagement outcome: The company committed to having 30% of women on the board by 2020. Following this the company announced the appointment of two female directors to the board, taking the percentage to 33%.

THAT A DIVERSE WORKFORCE AT ALL LEVELS OF THE ORGANISATION – NOT LEAST AT BOARD LEVEL – SUPPORTS BUSINESS AND ULTIMATELY FINANCIAL PERFORMANCE OVER TIME IS A BELIEF SHARED BY AN EVER-INCREASING NUMBER OF COMPANIES.

Transparency and Disclosure

Recent years have brought many developments in the corporate governance landscape, with changes such as amendments to the corporate governance code and the introduction of numerous stewardship codes. These changes have created some momentum for the improvement of corporate governance for listed companies. Such changes can have strong relevance to investors, as improving disclosure and corporate governance can enhance communication between investors and companies, helping better align shareholder interests with those of corporate managers.

We believe that additional information and reporting from companies is essential for investors to understand the underlying risks within portfolios and investee companies, enabling good investment decisions that take long-term risks into account.

For example:

- A clear disclosure of a company's business strategy is essential for investors to assess how strategic management aims to foster competitive advantage and consequently future performance and value. Numerous studies support the importance of disclosure of business strategy, associating it, for example, with a lower cost of equity capital, lower bid-ask spreads, and higher trading volumes. Furthermore, greater disclosure of strategy promises to reduce the information asymmetry between investors and corporations, increasing both stock returns and the willingness of markets to fund long-term and innovative strategies.
- Transparency is critical in allowing investors to understand the link between pay and performance over time. In order to come to an informed assessment of compensation structure, companies must disclose the metrics, thresholds, targets and vesting conditions of equity-based compensation in an accurate and transparent manner. Companies must also report coherently and openly on the principles underlying their remuneration policy, and be responsive to shareholders, visibly taking into account votes against remuneration at shareholder meetings and engaging with shareholders where discontent exists.
- In June 2017 the Task Force on Climate-related Financial Disclosures ('TCFD') issued a set of voluntary recommendations to help corporates assess and report on financial impacts of climate-related risks and opportunities. Following this announcement, TCFD became a core aspect of engagement with companies on the issue of climate change and disclosure.
- Robeco's Active Ownership team has conducted extensive research to gain a better understanding of the existing state of affairs in corporate governance in Asia. Key factors analysed included the disclosure of corporate strategy, unexplained material costs and other significant governance issues. Engagement with a large peer group of Asian companies has since been maintained around two key objectives: the disclosure of corporate strategy and improving capital management. The broad objective is to improve the quality of company reporting on business and financial strategy, as well as holding management accountable for delivery, and raising the bar for shareholder returns. A secondary objective is to explain significant costs. All with a view to improving the valuations of target holdings under engagement by influencing companies to improve investor reporting and to better align their capital management to create economic value.

TRANSPARENCY AND DISCLOSURE FROM COMPANIES IS ESSENTIAL FOR INVESTORS TO UNDERSTAND THE UNDERLYING RISKS WITHIN PORTFOLIOS AND INVESTEE COMPANIES; THIS COVERS BUT IS NOT LIMITED TO FINANCIAL, ENVIRONMENTAL – INCLUDING CLIMATE CHANGE – AND WORKFORCE RISKS.

Location: Lincolnshire

Transparency and Disclosure of Strategy Engagement Example: Asian Electronic Company

Reason for engagement: Engagement with the company focused on board independence, corporate strategy and capital management, particularly with a view to improving the composition of the board, with more diversity and a stronger role for non-executive directors.

Objectives: Board independence, corporate strategy and capital management.

Scope and process: A number of meetings have taken place over recent years, with the company's Investor Relations and ESG teams, and its Chair. The company has now followed a longstanding recommendation in splitting the roles of CEO and Chair, and has enhanced its shareholder return policy. After engaging with the company over its election of directors and the skills or qualities it seeks, it confirmed its efforts to find an independent director candidate with executive experience at a large, global company.

Engagement outcome: Over recent years the company has made great efforts to improve its corporate governance and to take a more shareholder-friendly attitude, splitting the CEO and Chair roles representing a particularly notable step – all the more so in being untypical for the region.

Transparency and Disclosure of Climate Change Risk Engagement Example: Royal Dutch Shell

Reason for engagement: Oil and gas companies play a systemically critical role in the energy transition. Although production phase emissions are relatively low, the end use of oil and gas products accounts for more than half of global energy consumption greenhouse gas ('GHG') emissions. Oil and gas producers are consequently a priority sector for engagement.

Objectives: Governance framework on climate-related issues, climate risk management, actions to reduce greenhouse gas emissions, enhanced disclosures.

Scope and process: Engagement has been taking place with Shell for many years to try to reduce the company's impact on climate change. In 2017, Shell became the first oil and gas company to introduce an ambition to reduce its carbon footprint, stretching out to 2050. Together with the Church of England Pensions Board, Robeco led investor engagement activities on behalf of Climate Action 100+, an initiative spearheaded by investors with more than $32tn in assets under management, and the Dutch corporate governance platform Eumedion.

Engagement outcomes: In December 2018, in a joint statement with investors, Shell for the first time agreed to set short-term targets for cutting GHG emissions. Shell aims to halve its net carbon footprint by 2050, with 20% reduction by 2035 as an interim step. To operationalise this long-term ambition, in 2020 Shell will start setting net carbon footprint targets for shorter-term periods. Each year the target will be set for the next three- or five-year period until 2050. Furthermore, Shell will link energy transition targets with executive long-term remuneration as part of its revised Remuneration Policy. Shareholders will be able to vote on this at the 2020 Annual General Meeting.

VOTING

Border to Coast believes that companies operating to higher standards of corporate governance have greater potential to protect and enhance investment returns. An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing directors and auditors and to be assured that appropriate governance structures are in place. During 2018-19 we have worked hard with our Voting and Engagement Partner, Robeco Institutional Asset Management, to vote in line with the voting policy agreed with our Partner Funds.

Location: Lincolnshire

As a shareowner, we have a responsibility for effective stewardship of the companies we are invested in. We vote our shareholdings in listed equity portfolios and engage with investee companies globally. We believe the most effective way to achieve this is through an external voting and engagement provider. We appointed Robeco as our Voting and Engagement Partner to ensure we were ready to vote at company meetings as soon as our investment funds were operational. This guaranteed that votes could be cast at meetings as soon as the assets were transitioned from our Partner Funds. The first funds - the UK Listed Equity Fund and the Overseas Developed Markets Equity Fund - were launched in July 2018, with the Emerging Markets Equity Fund and UK Listed Equity Alpha Funds launched during the fourth quarter of 2018. We began voting at company meetings on behalf of our Partner Funds from 10 July 2018, therefore this report does not cover a full year's voting data.

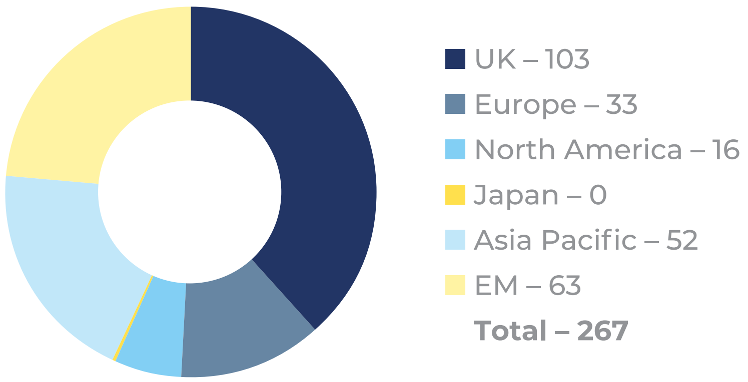
Our Corporate Governance and Voting Guidelines were reviewed and revised during the year, in conjunction with our Partner Funds, and expanded to reflect global corporate governance trends. The Voting Guidelines, which are available on our website, provide a framework for voting, and are administered and assessed on a case-by-case basis. A degree of flexibility is required when interpreting the guidelines to reflect specific company and meeting circumstances.

Voting

Total number of meetings	267
Total number of resolutions	3,076

Voting Activity

Shareholder meetings voted by region

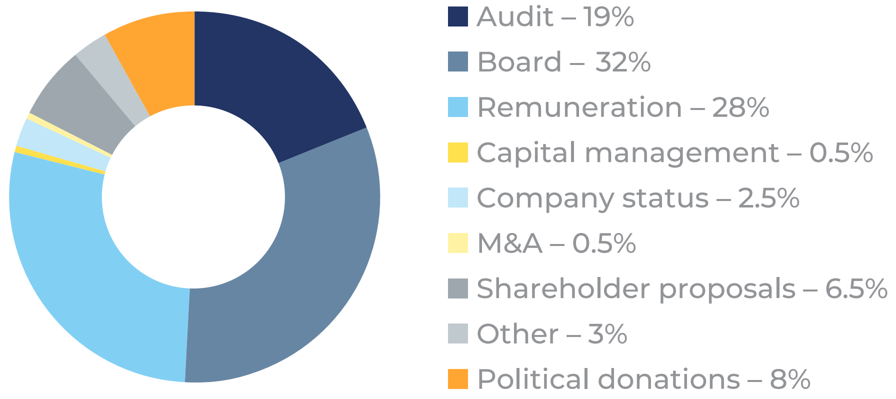


* Voting activity is for the period 1 July 2018 to 31 March 2019

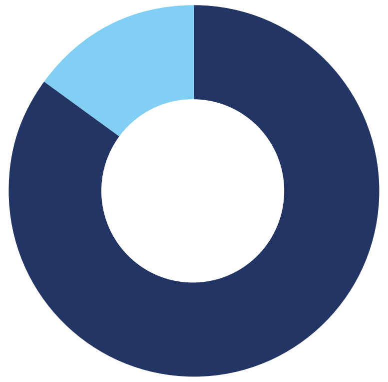
(NB. Companies may be held in multiple portfolios)

Global meetings – votes with/against management

Global votes against – by category %



UK Listed Equity Alpha Fund	
Approx. size:	£1.0bn
Launch:	Dec 2018
Managed:	Externally
Total number of meetings:	39
Total number of agenda items voted:	521



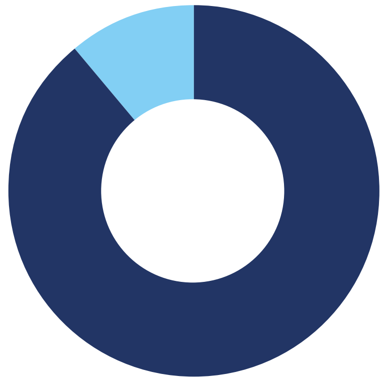
Votes with/against management

- With management – 85%
- Against management – 15%

Votes against by category

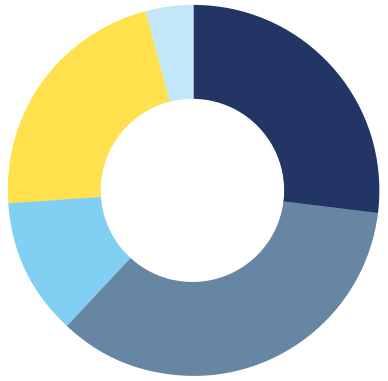
- Audit – 30%
- Board – 28%
- Remuneration – 24%
- Political donations – 18%

UK Listed Equity Fund	
Approx. size:	£3.9bn
Launch:	Jul 2018
Managed:	Internally
Total number of meetings:	76
Total number of agenda items voted:	1,081



Votes with/against management

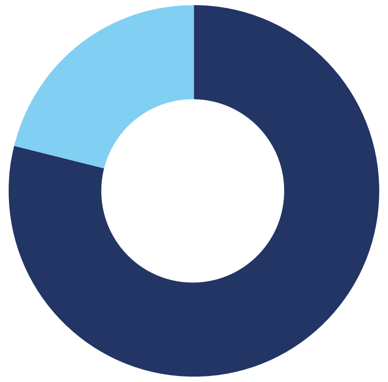
- With management – 89%
- Against management – 11%



Votes against by category

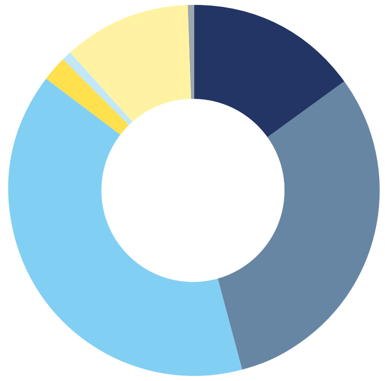
- Audit – 27%
- Board – 35%
- Remuneration – 12%
- Political donations – 22%
- Company status – 4%

Overseas Developed Markets Equity Fund	
Approx. size:	£2.5bn
Launch:	Jul 2018
Managed:	Internally
Total number of meetings:	133
Total number of agenda items voted:	1,337



Votes with/against management

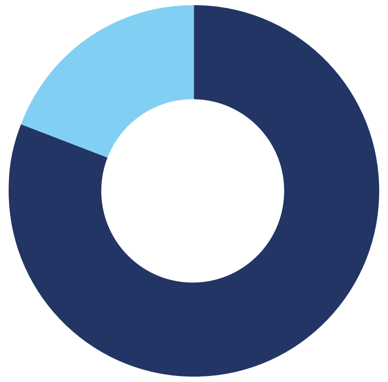
- With management – 79%
- Against management – 21%



Votes against by category

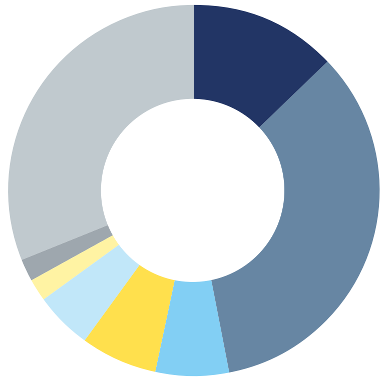
- Audit 15%
- Board – 31%
- Remuneration – 39.5%
- Company status – 2%
- Capital management – 1%
- Shareholder proposals – 11%
- M&A – 0.5%

Emerging Markets Equity Fund	
Approx. size:	£0.7bn
Launch:	Oct 2018
Managed:	Internally
Total number of meetings:	29
Total number of agenda items voted:	235



Votes with/against management

- With management – 81%
- Against management – 19%



Votes against by category

- Audit – 13%
- Board – 34%
- Remuneration – 6.5%
- Company status – 6.5%
- Capital management – 5%
- Shareholder proposals – 2%
- M&A – 2%
- Other – 31%

OUR RESPONSIBLE INVESTMENT POLICY

Our Responsible Investment Policy and Corporate Governance and Voting Guidelines ('Voting Guidelines') were developed in 2017 in conjunction with our Partner Funds, ensuring that policies were in place before the transition of assets. Both policies are reviewed annually to reflect developments in best practice and regulation, and updated as necessary through the appropriate governance channels. The process for review includes the participation of all Partner Funds; this is to ensure that we have a strong, unified voice.

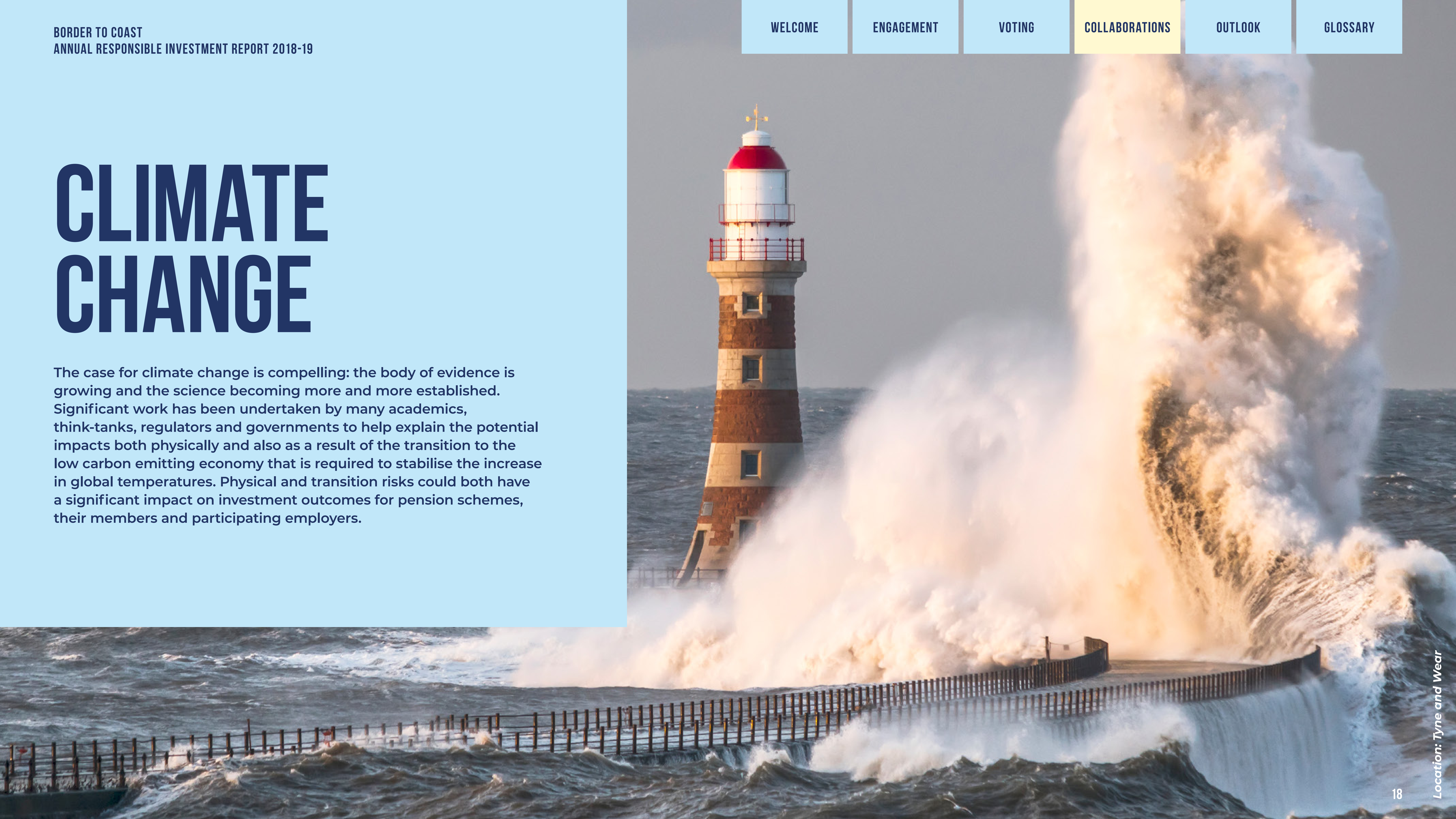
We undertook our first review over the course of the year, which led to us making some substantial changes to content while retaining both policies' principles. The revised Responsible Investment Policy reflects changes necessary to satisfy Principles for Responsible Investment ('PRI') reporting requirements. The Voting Guidelines were expanded to reflect not just UK best practice but global corporate governance trends. The revised UK Corporate Governance Code was also considered. The Voting Guidelines are applied to all listed equities whether managed internally or via mandates with external managers. They provide a framework for voting and are administered and assessed on a case-by-case basis.

Key features of our policies:

- Governance and Implementation: policies are jointly owned and created after collaboration and engagement with our Partner Funds, and reviewed annually. The Chief Investment Officer ('CIO') is accountable for implementation of the policies.
- ESG integration: incorporating ESG factors into investment analysis and decision-making across different asset classes, enabling long-term sustainable investment performance for our Partner Funds.
- Approach to climate change: actively considering how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments.
- Voting: we aim to vote in every market in which we invest where this is practicable, exercising our voting rights carefully to promote and support good corporate governance principles.
- Engagement: we aim to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement, and will work collaboratively with other like-minded investors and bodies to increase our influence.
- Communication and reporting: we aim to be transparent and make publicly available our RI and voting policies, publish quarterly voting activity, reporting on engagement and RI activities to our Partner Funds quarterly and in our annual RI report.

CLIMATE CHANGE

The case for climate change is compelling: the body of evidence is growing and the science becoming more and more established. Significant work has been undertaken by many academics, think-tanks, regulators and governments to help explain the potential impacts both physically and also as a result of the transition to the low carbon emitting economy that is required to stabilise the increase in global temperatures. Physical and transition risks could both have a significant impact on investment outcomes for pension schemes, their members and participating employers.



Location: Tyne and Wear

Location: Durham

Climate change has the potential to be game changing in terms of how the world works; impacting the way we live and work and, as a consequence, the ways in which industry develops and capital flows between the old and new economies. The impact on the ways we invest will be significant, as government policy brings new regulation including carbon pricing, research into new, cleaner technologies starts to deliver better returns, and demand for (and supply of) more climate-aware products gathers pace.

Investors are becoming increasingly aware of climate-related risks. There is a growing sense of urgency to understand how investee companies, and the economy in general, will be impacted by climate change, and to what extent they are seizing emerging opportunities. Climate-related issues can significantly impact an organisation's revenues and expenditures, and the valuation of its assets and liabilities.

For example, transition and physical risks may affect demand for products and services, which will likely impact company revenues. Climate-related issues may also change the profile of an organisation's debt and equity structure, for example by increasing debt levels to compensate for reduced operating cash flows or new research and development expenditures.

In engagement dialogues so far, many of the companies are clearly aware of the need for innovation and change, with many new business models under consideration. Renewable energy, grid management and electric vehicles are just a few of the new developments that could offer business opportunities for the large oil and gas players, most of whom have established new business units dedicated to exploring commercial models in biofuels and renewables. Companies are proceeding with caution, as they test how their organisations can add value to these new areas of the energy system. Most are allocating modest amounts of Capital Expenditure, but for those leading the transition, larger investments after the end of the decade seem likely.

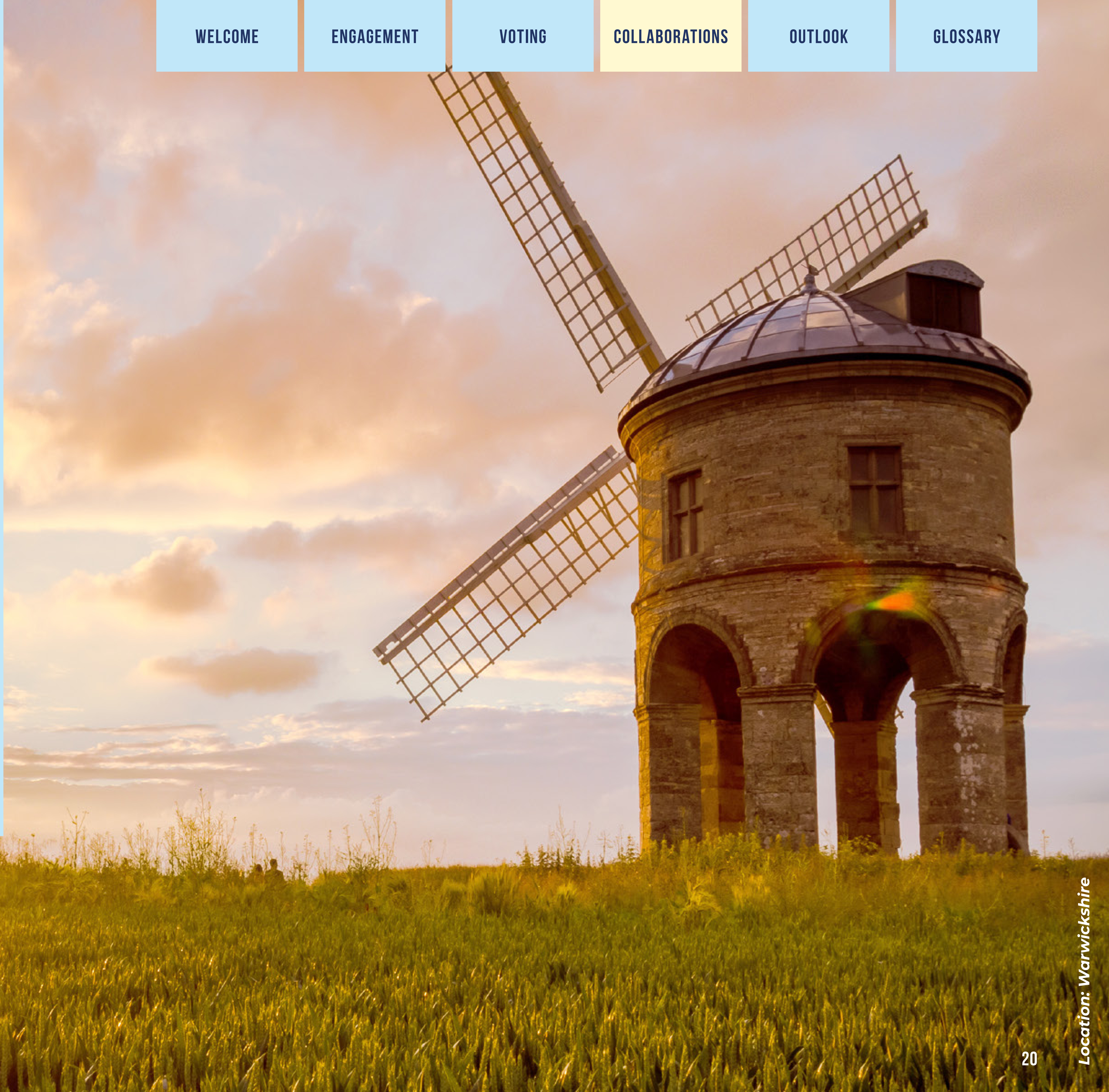
Even recognising that transition to a more sustainable energy system is a long-term journey which cannot take place overnight, the journey must start today. A key component is translating this long-term ambition into an implementable and accountable plan of action. Definite signs are beginning to emerge of companies transitioning to a more sustainable footing.

We have been working to integrate ESG into our investment process, including climate considerations and assessing portfolios in relation to climate change risk where practicable. We do not consider climate change as either an ethical or niche concern, but as potentially a material financial risk to the medium- and long-term value of investments.

To more fully understand the implications of climate change on our approach to investment we established a Climate Change Working Party of Partner Fund officers, Border to Coast personnel, our external partners (Robeco and the external managers) and other experts. We held the first of six sessions in February with the aim to develop a climate strategy with our Partner Funds that we can put to work over the next 1-2 years.

COLLABORATIONS

Pooling our twelve Partner Funds' assets enables a louder voice when it comes to influencing through voting and engagement. Joining with other like-minded asset owners and managers gives even greater opportunities to make a difference to investment outcomes. We were delighted during 2018-19 to join with others in collaborations that support our engagement focus areas of Governance, Transparency and Disclosure, and Diversity.



Location: Warwickshire

Border to Coast will look to work collaboratively with other like-minded investors, external groups, investor coalitions and others to maximise its influence, particularly when it is more effective than acting alone. The Responsible Investment initiatives we have supported reflect our key focus themes of Governance, Transparency and Disclosure, and Diversity.

Local Authority Pension Fund Forum ('LAPFF')

LAPFF is the UK's largest collaborative shareholder engagement forum with more than £230bn in combined assets under management. Its aim is to promote the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and responsibility among investee companies.

All twelve of our Partner Funds are members. Border to Coast made the decision to join, and became a member ahead of the first investments being transitioned from Partner Funds. Chris Hitchen, our Chair, stood for election to the LAPFF Executive at July's AGM and was duly elected. Chris joined Councillor Doug McMurdo, the Chair of Bedfordshire Pension Fund and Chair of the Joint Committee, on the Executive.

The 30% Club Investor Group

The 30% Club Investor Group aims to engage with company boards and senior management to encourage diversity; to effect change through voting and engagement.

Diversity on boards and within an organisation is important to ensure that a company is sustainable. There is growing evidence that more diverse boards result in better-performing companies, diverse teams make better decisions, and gender-balanced companies attract and retain better talent. This leads to materially better investment returns and financial outcomes for investors. There is a link between better risk/return profiles and a diverse board.

This evidence led Border to Coast to become a supporter of the 30% Club Investor Group, which engages with companies to promote gender diversity. It has had successful meetings with companies that are now actively looking to increase female and ethnic diversity at board level.

Climate Action 100+

Climate Action 100+ is a five- year investor-led initiative to engage with the largest greenhouse gas ('GHG') emitters and other global companies to curb emissions, strengthen climate-related financial disclosures, and improve governance on climate change risks and opportunities. Collaborative global engagement is undertaken with major asset owners and asset managers. It was highlighted as one of twelve key global initiatives to tackle climate change at the One Planet Summit in December 2017.

This RI initiative enables us to engage with global companies on issues of transparency and disclosure related to climate change, in line with our RI policy. The initial list of 100 companies was drawn up in December 2017, with an extra 60 added in July 2018. More than 300 investors with more than $32tn assets under management support the initiative. Engagement aims to improve companies' governance, risk management framework and disclosures on climate-related issues, and calls for action to reduce GHG emissions across their value chain.

The first year of this investor-led global initiative saw momentous progress in a number of companies. Collaborative engagement by investors with the world's highest emitters brought important commitments to curb GHG emissions, with corporate leaders increasingly acting to differentiate themselves from peers by adopting stronger commitments to decarbonise. Engagement is taking place with companies in the automotive, oil and gas, industrial manufacturing, utilities, consumer goods, building materials and mining sectors. Climate Action 100+ investors, with support from the Institutional Investor Group on Climate Change and Ceres, have filed shareholder resolutions at focus companies in Europe and the US.

The Workforce Disclosure Initiative ('WDI')

The WDI was launched by ShareAction in 2017 with funding from the UK Department for International Development. This is a new project focusing on human capital management reporting by companies. Although interest among investors in analysing ESG risks has risen considerably, the focus has mostly been on environmental and governance matters with little data available on social issues, including workforce reporting. This is an area where investors need better data to be able to assess any potential risks within investee companies; we therefore made the decision to become a signatory in October 2018.

A coalition of 79 institutional investors with nearly $8tn AUM became founding signatories to the WDI; this is now up to 120 with more than $13tn AUM, and includes mainstream asset managers and some LGPS funds. The pilot year survey was sent to the FTSE 50 plus 25 mega cap companies listed on global stock exchanges, and had a 45% response rate. The second survey targeted 500 companies worldwide, requesting data on how they manage their direct operations and supply chain workforce. The 2018 survey saw 90 companies respond - up from 34 in 2017. The respondents were from 16 countries, covered all eleven Global Industry Classification Standard ('GICS') sectors, and included 21 of the world's top 100 companies by market capitalisation. Half of respondents to the latest survey are overseas companies.

Location: Bedfordshire

The Institutional Investor Group on Climate Change ('IIGCC')

IIGCC provides a collaborative forum for pension funds and other institutional investors to engage with policy-makers, regulators and companies to address the long-term risks and opportunities associated with climate change. Membership enables Border to Coast to deliver its RI Policy commitment to engaging with policy-makers in relation to climate change; something that would be difficult to do in isolation.

IIGCC now has more than 160 members, with €21tn in assets under management. It plays a key role in the delivery of two global investor initiatives: Climate Action 100+, the collaborative engagement initiative, and the Investor Agenda, which provides a global platform to increase investor action on climate change. Discussions have been held with key policy-makers at the EU and globally presenting the investor perspective. Work has been ongoing within the Investor Practices and Corporate programmes developing and publishing investor guides; this includes publications on the integration of climate risk into the investment decision-making process and an investor framework on scenario analysis. IIGCC also has a shareholder resolution sub-group, which supports AGM resolution activity.

IIGCC
The Institutional Investors Group on Climate Change

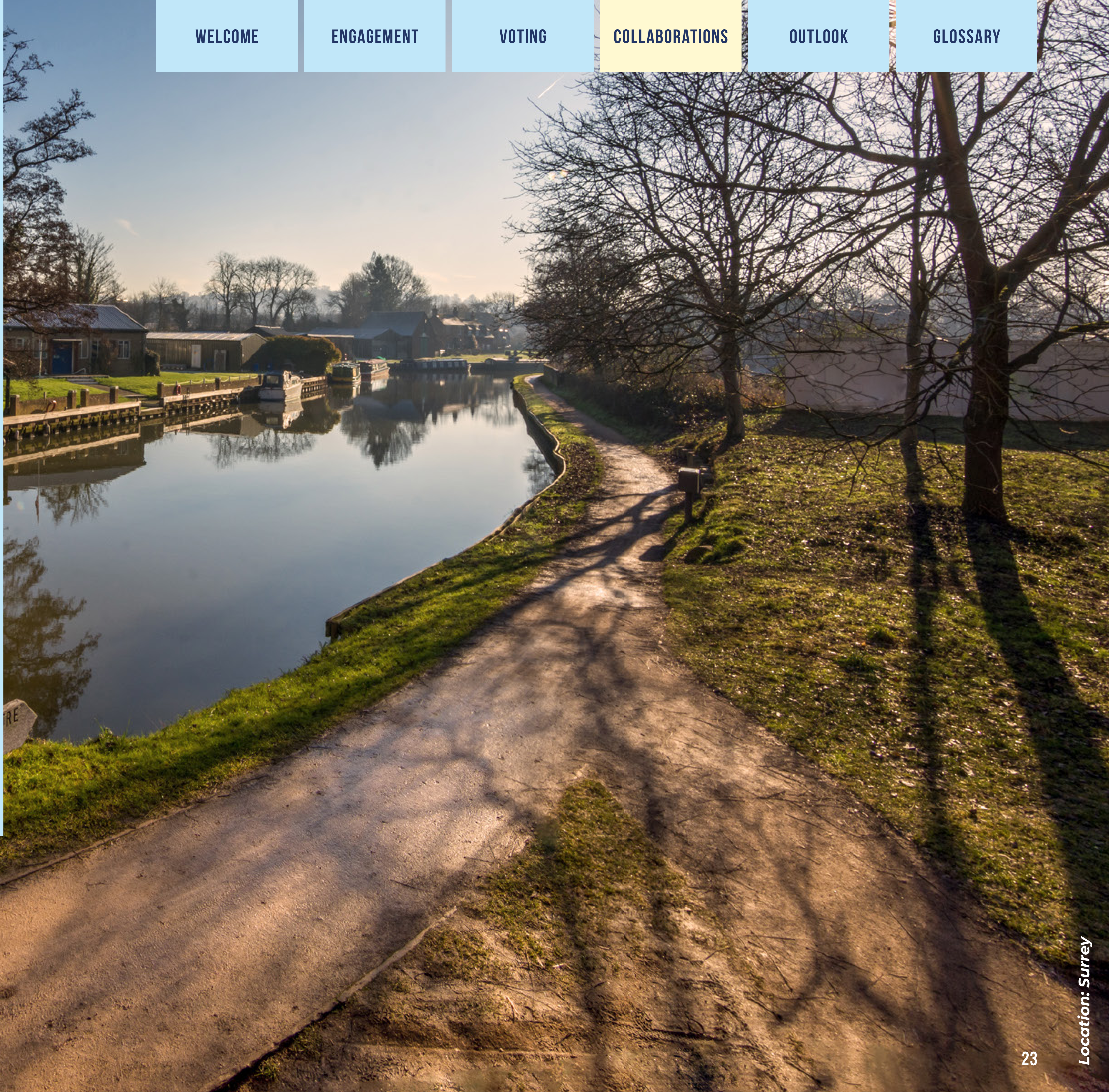
The Task Force on Climate-related Financial Disclosures ('TCFD')

TCFD is a voluntary framework for companies and investors to provide climate-related information in annual financial reports based around governance, strategy, risk management and metrics. Greater disclosure is key to obtaining reliable and consistent data, which improves an investor's ability to assess climate-related risks and opportunities across investments. By becoming a supporter of the TCFD we will encourage investee companies to improve disclosure, and report in line with the TCFD recommendations. We will report in line with TCFD recommendations in our 2019-20 annual report.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TAILINGS DAM INITIATIVE

An example of a collaboration with other investors is on tailings dams. In January 2019, Border to Coast supported a statement calling for a new independent mine safety system to address tailings dam failures. The Statement and wider Mining and Tailings Safety Initiative, co-led by the Church of England Pensions Board and the Swedish AP Funds Council of Ethics, are now supported by investors with more than $12.5tn of assets under management.



Location: Surrey

INVESTOR MINING AND TAILINGS SAFETY INITIATIVE

Border to Coast has pledged its support to the Investor Mining & Tailings Safety Initiative. This calls for a new independent mine safety system to be implemented globally following the failure of a tailings dam, which burst on 25 January 2019 at the Córrego do Feijão Mine in Brumadinho, Brazil. The initiative was launched on 31 January and as of the end of April has support from investors worldwide with over £12tn of assets under management.

The dam failure at the iron ore mine, owned by listed Brazilian mining company Vale, resulted in a tragic loss of life, has had an enormous environmental impact, and was one of the worst disasters ever to occur in South American history, with more than 200 fatalities and a significant number of people still missing. This is the eleventh serious failure of a tailings dam in the past decade. Three years ago, a tailings dam collapsed at Samarco, a facility jointly operated by Vale in the Brazilian state of Minas Gerais. These incidents, which have a devastating impact on local communities and the environment, are predicted to increase in frequency unless there are major changes to industry laws and regulations. The financial implications of corrective measures are substantial, and there is a disheartening lack of evidence of companies prioritising safety in this crucial area.

The Initiative has sought input from leading experts, communities impacted by the recent disaster, government representatives, leading technical advisors and mining companies. There has been a positive response with a global review announced, co-convened by the International Council on Mining and Metals, the Principles for Responsible Investment and the United Nations Environment Programme. A letter has also been sent to more than 680 extractive companies requesting greater disclosure on tailings dams management.

As a company with a strong commitment to Responsible Investment, Border to Coast felt it imperative to support the Investors’ Statement. Working in partnership with others will ideally help drive a new level of accountability and transparency, and promote positive change across the industry.

OUTLOOK FOR 2019-20

We are seeing growing momentum in both the investment community and more broadly for companies to act responsibly and have mind to their impact on society and the environment in the longer-term. This is leading to risks to investment performance as well as opportunities, which investors must be aware of in making investment decisions.

Location: Teesside

OUTLOOK FOR 2019-20

2018-19 saw the power of collaborative engagement and what can be achieved when institutional investors, asset managers and asset owners work together:

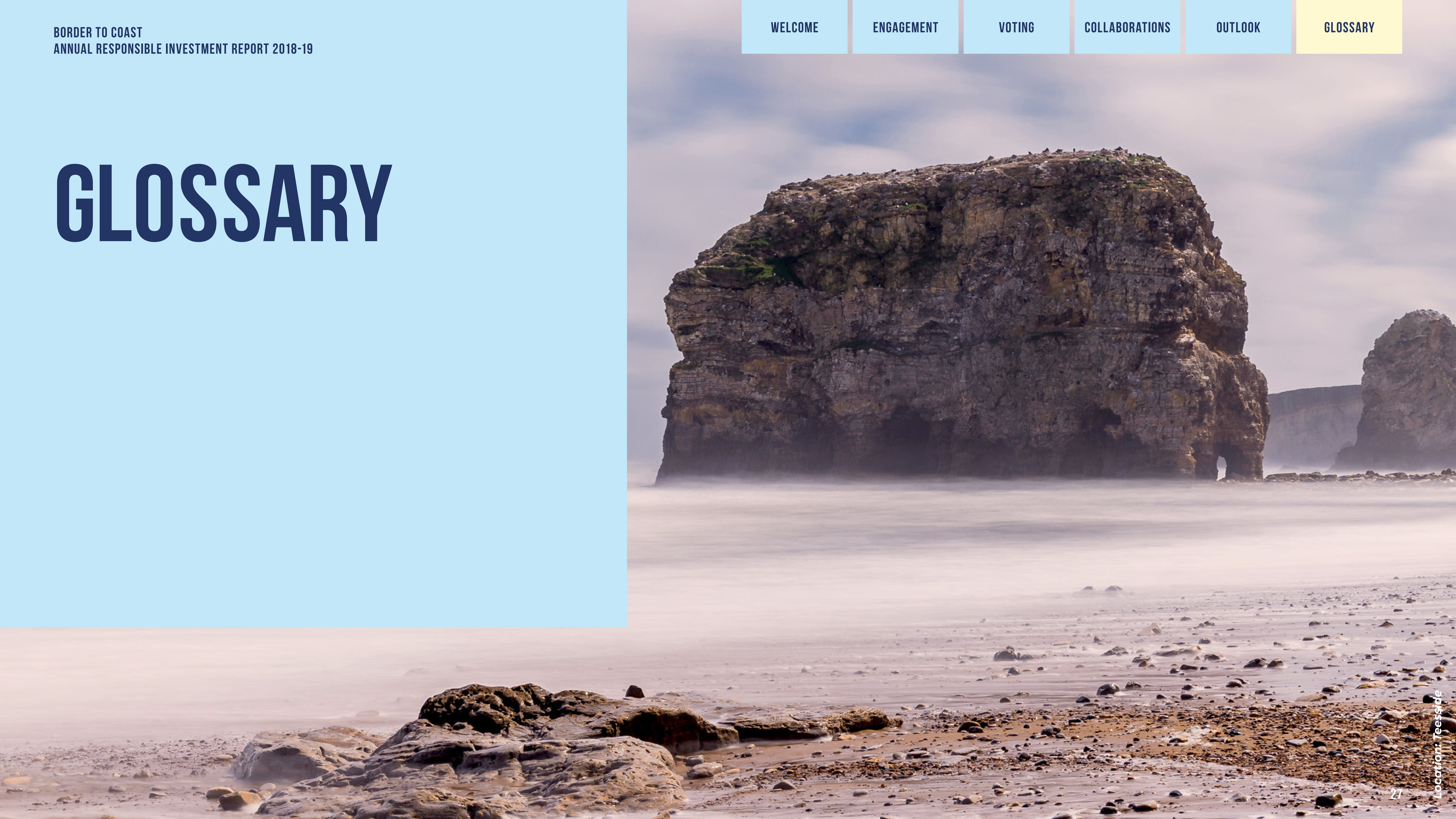
- Climate Action100+ has made some incredible achievements through investor-led engagement with companies with high carbon emissions in a relatively short space of time, including overwhelming shareholder approval for the recent BP shareholder resolution on climate change, which Border to Coast co-filed.
- The Investor Mining & Tailings Safety Initiative, which was set up immediately following the terrible disaster in Brazil, has gained the support of investors with more than £12tn AUM in a little over three months. The response from industry bodies and companies has been very positive.

Working with other investors through collaborative RI initiatives is more effective than Border to Coast acting alone. We will therefore continue to prioritise investor initiatives such as these that are aligned with our policies and will have a meaningful impact to our Partner Funds' investment outcomes.

We will continue to focus on the core engagement areas over the next year. Change takes time to achieve. Relationships need to be built with company managements and trust gained in order to influence and change behaviour. Focus themes for the past year have included transparency and disclosure, as investors need quality and consistency of data to make informed decisions to understand potential underlying risks within portfolios and investee companies. ESG data and disclosure from companies provides an additional tool for investors to differentiate between companies, and can also inform engagement strategies. There are a number of initiatives pressing for better disclosure, which is positive; however, we need to ensure that there is a standardised approach to both reporting and disclosure, so that investors have consistent and comparable data. Companies can be overwhelmed by requests, leading to repetition and increased workload and cost. As investors we need to make sure that the burden is not so great that it becomes a drag on business performance. We will continue to focus on this theme.

The coming year will bring new challenges and opportunities on the Responsible Investment front. We have new sub-funds being launched in other asset classes, and are continuing to work on integrating ESG into the investment processes across all our investments. To demonstrate the importance we place on Responsible Investment and ESG integration we are committed to becoming a signatory to the Principles for Responsible Investment later in 2019, and working to ensure we will be prepared.

GLOSSARY



Location: Teesside

A

Active ownership
Investors using their voting rights alongside engagement to effect change and improve the long-term value of a company.

B

Best-in-class
Investing in companies that have performed better than their peers in meeting environmental, social and governance ('ESG') criteria within their industry or sector. It can also be considered as positive screening.

C

Carbon footprint
The amount of carbon dioxide released into the atmosphere due to the activities of an organisation.

Carbon Disclosure Project ('CDP')
CDP is a global, investor-driven, climate change reporting scheme which motivates companies to disclose and reduce their environmental impacts by using the power of investors and companies.

Clean energy
Energy from non-polluting sources, including solar, wind and water.

Climate change
The long-term change in the expected patterns of average weather of a region (or the whole Earth), also linked to global warming.

Climate risks/opportunities
Risks/opportunities as a result of climate change that have the potential to affect companies, industries and whole economies. These include regulatory, reputational, transitional and physical risks and opportunities.

Conference of the Parties ('COP')
A UN conference on climate change that is held annually. The 24th conference (COP 24) was held in Poland in December 2018. COP 21 negotiated the Paris Agreement, a landmark global treaty on the reduction of climate change.

Corporate governance
The system of rules, practices and processes by which a company is directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role includes appointing the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

Corporate Social Responsibility ('CSR')
The term under which companies report on their social, environmental and ethical performance, having recognised their responsibility to the community and environment in which they operate.

D

Divestment
Sale of stocks, bonds or investments seen as being in conflict or unaligned with ESG objectives, values or convictions.

E

Engagement
The practice of shareholders entering into dialogue with management of companies to change or influence corporate behaviour and decision-making.

ESG
ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing an investment's sustainability.

ESG integration
The incorporation of ESG factors and analysis into investment decisions.

Ethical investing
An investment approach that uses ethical values and beliefs as a screen for selecting investments.

Extra-financial
Elements of a company's behaviour that may not be captured in traditional financial reporting and analysis. ESG factors are often associated with extra-financial factors.

F

Fiduciary duty
Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Reporting Council (FRC)
Regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.

G

Global Compact (United Nations Global Compact)
The world's largest corporate sustainability initiative, asking companies to align strategies and operations with universal principles on human rights, labour, environmental concerns and anti-corruption, and to take actions that advance societal goals.

Green bonds
A bond specifically earmarked to be used for climate and environmental projects, also referred to as climate bonds.

Green investing
An investment philosophy that considers the environmental impact of an underlying investment.

Green-washing
When an unsubstantiated or misleading claim is made about the environmental benefits of a fund or financial instrument.

I

Impact investing
An investment philosophy which supports companies working to provide significant societal or environmental benefit, in addition to generating a financial return.

Institutional Investor Group on Climate Change ('IIGCC')
IIGCC provides a collaborative forum for pension funds and other institutional investors to engage with policy-makers, regulators and companies to address the long-term risks and opportunities associated with climate change.

International Energy Agency ('IEA')
The International Energy Agency is an autonomous inter-governmental organisation that was established following the 1973 oil crisis. The IEA acts as a policy adviser to nations in the fields of energy security, economic development and environmental protection.

Investment stewardship
Voting and engagement with companies to promote good corporate governance practices consistent with encouraging long-term value creation for shareholders.

L

Low-carbon economy
An economy based on low-carbon power sources with minimal greenhouse gas emissions into the environment.

N

Negative screening
An investment approach that excludes some companies or sectors from the investment universe based on criteria relating to their policies, actions, products or services.

P

Principles for Responsible Investment ('PRI')
The United Nations-supported Principles for Responsible Investment initiative was launched in 2006. The world's leading advocate for responsible investment, it enables investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Proxy voting
Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

R

Responsible investment ('RI')
Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

S

Stranded assets
Typically refers to fossil fuel reserves that may become 'un-burnable' due to issues such as climate, regulatory or market changes.

Sustainable Development
The concept of meeting present needs without compromising future generations.

Sustainable Development Goals ('SDGs')
The SDGs are a collection of seventeen global goals covering a wide range of ESG issues, from poverty and health to gender equality and the environment, set by the United Nations General Assembly in 2015 for the year 2030.

T

Task Force on Climate-related Financial Disclosure ('TCFD')
Set up to develop voluntary, consistent, climate-related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders.

U

UN Global Compact
An initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and report on their implementation.

UN Guiding Principles ('UNGP') on Business and Human Rights
A global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity. The UNGPs encompass three pillars outlining how states and businesses should implement the framework.

UK Stewardship Code
A code first published by the Financial Reporting Council in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries.

Border to Coast Pension Partnership Ltd is authorised and regulated by the Financial Conduct Authority in the UK (FRN 800511).

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BORDER TO COAST
PENSIONS PARTNERSHIP