BORDER TO COAST
TCFD REPORT
2020/21

BORDER TO COAST
PENSIONS PARTNERSHIP

Introduction

As a customer-owned, customer-focused business, we exist to make a difference for the Local Government Pension Scheme. We were established with the belief that responsible investment ('RI'), including effective stewardship, is fundamental to our collective success and this remains core to what we do and how we work. We operate collective investment vehicles covering a wide-ranging set of asset classes in which the Local Government Pension Scheme Funds which are our customers and shareholders ('Partner Funds') can invest to implement their strategic asset allocations.

The responsibility for asset allocation, an important part of managing climate risk, remains with our Partner Funds. We work closely with our Partner Funds to provide RI support including on climate change. We produce quarterly stewardship and voting reports and full voting reports annually which are also available on our website. We also provide additional support and training as required and present to pensions committees. We hold regular RI workshops throughout the year which include agenda items covering climate risk for both pensions officers and the Joint Committee to ensure continuing dialogue. Our Partner Funds also have a significant role in the annual review of our RI Policy.

We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact affect investments. We believe that climate change is a systemic risk with potential financial impacts associated with physical impacts and the transition to a low-carbon economy under different climate scenarios. We believe that these pose significant investment risks, as well as opportunities, with the potential to impact long-term value across all asset classes. Border to Coast therefore supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD'). As a representative of asset owners, we have a role to play in influencing the companies and organisations in which we invest to take account of climate change, including the provision of better climate-related financial disclosures, enabling us to make better informed investment decisions. How we do this is outlined in our Responsible Investment & Stewardship Report which, together with further information regarding our approach to sustainability more generally, can be found on our website.

As a relatively new company based in a single location with 100 colleagues, Border to Coast's exposures to climate change come predominantly from the investment funds that it manages on behalf of its Partner Funds. This report, therefore, is primarily focused on the climate risk associated with our investment funds. From inception we put measures in place to be a sustainable organisation. For example, we use technology to be paperless as far as is practicable, keeping printing to a minimum; and we recycle where possible. Our central Leeds location enables colleagues to commute by public transport; however, during the pandemic the whole organisation has been working remotely. We are developing our corporate social responsibility reporting and will provide more disclosure on the organisational metrics in next year's report.

This report sets out our approach to managing climate-related risks and opportunities in line with the TCFD recommendations within the four thematic areas of governance, strategy, risk management and metrics and targets. We are continuing to develop and evolve our approach to managing climate risk and reporting on climate-related disclosures in conjunction with our Partner Funds.

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Discover more at
bordertocoast.org.uk

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ASSESSING AND MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES

TCFD Report

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The organisation's governance around climate-related risks and opportunities.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk management
The processes used by the organisation to identify, assess and manage climate- related risks.

Metrics and targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Describe the Board's oversight of climate-related risks and opportunities.
The Board and its Committees determine the Company's overall strategy for risk management, overseeing the identification and management of risk. The Board is responsible for oversight of climate-related risk 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 incorporate the approach to climate change and associated risks and opportunities. Updates on responsible investment are presented to the Board at regular intervals, including activities related to climate change. The Board met six times over the financial year to 31 March 2021, and the Board Risk Committee also met six times, with agenda items covering investment, responsible investment and risk management. The Board has reviewed and approved this TCFD Report prior to publication.

Describe management's role in assessing and managing climate-related risks and opportunities.
The Chief Investment Officer ('CIO') is responsible for the implementation and management of the RI Policy, which includes climate risk, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Border to Coast practises active stewardship, using its voting rights and engaging with companies on environmental, social and governance ('ESG') factors, which include climate-related issues. Portfolios are screened using third party ESG and carbon data on a quarterly basis; findings are discussed with portfolio managers and incorporated into their investment decision making. Reports, which include voting and engagement statistics, ESG and carbon data, and updates on collaborative responsible investment initiatives, such as Climate Action 100+, are presented to the Investment Committee for monitoring. We continue to develop our approach to climate change. This has included working closely with our Partner Funds to promote a joined-up approach between strategy and implementation. We are also developing a standalone Climate Change Policy during 2021. A project group has been set up with six workstreams to support the work to deliver this policy.

Cumbria County Council

Strategy

OUR STRATEGY TO MANAGE RISK

Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

As set out in our Responsible Investment Policy, which can be found on our website, Border to Coast considers climate-related risks over the short, medium and long term. Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. We believe that climate-related risks and opportunities can be presented in several ways, including but not limited to:

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

Strategies to manage risk can vary between asset classes. We look to understand and mitigate risk and to take advantage of climate-related opportunities within our public equity (where we favour long-term sustainable cash flows) and our private market (equity and debt financing including infrastructure) investment portfolios. For fixed income mandates the focus is on protecting and limiting downside risk. 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. Our infrastructure offering includes an energy transition theme which targets investments that enable or benefit from the move to a lower-carbon economy. We are considering the role that private markets can continue to play in managing transition risk and to what extent climate change opportunities form part of our private markets offering over the long term.

Environmental, social and governance ('ESG') issues are integrated into the investment decision-making process with climate-related risks identified and integrated as part of this process. We use third party ESG and carbon data alongside internal and external research to help identify risks. We also use the Transition Pathway Initiative ('TPI') toolkit and the Climate Action 100+ Net Zero Company Benchmark to assess companies and inform company engagement. We map portfolio holdings to engagement being conducted on climate risk by our engagement partner, Robeco, and other collaborations we are involved in to monitor progress.

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Our strategic business planning process also takes into account our customers' needs and expectations with respect to responsible investment, including climate change risk. To date this has allowed us to develop and embed the tools to support our portfolio managers in investment decision making (for both internally and externally managed mandates). A three-year RI strategy was agreed in late 2019 to continue our development in this area. This is kept under regular review by the Board and our Partner Funds and as we enter the third year the strategy will be reviewed during 2021 for the next three-year period.

We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect the investments we make on behalf of our customers. Climate risk and opportunities are considered when conducting internal research and stock selection in the portfolios managed by our internal investment teams. Climate risk is factored into the selection and appointment of external managers and ongoing monitoring of these mandates. Climate-related risks are monitored across internally and externally managed portfolios and we challenge managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks. This in turn informs our engagement strategies, through collaborative initiatives and direct engagement.

We are developing a climate risk assessment 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 its direction of travel and track our progress. This will necessarily be an iterative process, recognising that data, tools and methodologies are developing rapidly.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The strategy of the organisation is unlikely to change significantly under different climate change scenarios as our customers and shareholders are long-term investors requiring multi-asset solutions that in most plausible scenarios will continue to require investment services. However, it is important to recognise that their investment strategies may change in the future and hence ongoing discussion with Partner Funds is a vital element of Border to Coast's business strategy. Climate change and the potential risks and opportunities it brings are considered across the investment propositions that have been developed for our customers, when conducting research, risk analysis, due diligence and ESG screens. 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 continue to improve. We have not carried out scenario analysis on any portfolios as yet. However, we are reviewing how we conduct scenario analysis across our portfolios, evaluating tools and external providers and different scenarios, and expect to have this in place during 2022.

Risk management

MANAGING RISKS

Describe the organisation's processes for identifying and assessing climate-related risks.

All business areas are responsible for identifying risks, with senior managers accountable for the identification of risks within their span of control. Risk can be identified via a number of processes, including, horizon scanning, the strategic planning and ICAPP processes and the risk and control assessments. Identified risks are included in the Company's risk inventory. Risks that are considered material to the Company are reviewed periodically and formally assessed at least twice a year, with material risks reported to the Board Risk Committee on a quarterly basis.

We actively horizon scan for emerging risks, opportunities and regulations which have the potential to impact markets and our ability to deliver desired customer outcomes. As an example of this, and reflecting that climate change, as a systemic risk, may impact financial markets and assets across all geographies, we have included climate change as one of our principal strategic risks.

Material ESG issues, which include climate change risk and opportunities, are considered as part of the investment decision-making process. In order to measure climate-related risks, we utilise third party carbon data to implement a carbon screening tool across internally and externally managed portfolios. This produces a carbon footprint relative to the portfolio benchmark allowing for internal analysis of carbon risks. This is used alongside other tools such as the TPI tool and engagement data, to understand intrinsic risk at stock, sector and portfolio level.

Describe the organisation's processes for managing climate-related risks.

We manage climate-related risks in a number of different ways:

- We work with our internal portfolio managers and with our external asset managers to firstly understand the risk, conducting carbon screens to identify largest emitters and potential risks around stranded assets.
- Climate-related risk and opportunities are addressed during the selection and appointment of external asset managers and as part of ongoing monitoring of managers and portfolios enabling challenge. Climate risk is covered during the due diligence process for private market investments and annual monitoring.
- We engage with portfolio companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations and encourage companies to adapt their business strategy in alignment with a low-carbon economy. We encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions. Engagement is conducted by our engagement partner, Robeco, through our support of collaborations such as Climate Action 100+ and the Local Authority Pension Fund Forum ('LAPFF') and directly by members of the Border to Coast Investment team and/or Responsible Investment Team and we also expect our external asset managers to engage with companies on climate risk.
- As members of the Institutional Investors Group on Climate Change ('IIGCC') we engage collaboratively alongside other institutional investors with policymakers.
- We vote all equity portfolio holdings according to our Corporate Governance & Voting Guidelines, which are administered by our voting and engagement provider. The Voting Guidelines have been updated for the 2021 proxy season to vote against company chairs in high-emitting sectors where the climate change policy does not meet our minimum standards, and/or is rated Level 0 or 1 by the TPI, and where there is no evidence of a positive direction of travel.
- We support climate-related resolutions at company meetings which we consider reflect our RI Policy. We co-file shareholder resolutions at Company AGMs on climate risk disclosure that are deemed to be institutional quality shareholder resolutions consistent with our RI policies, after conducting due diligence.

Describe how processes identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

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, with external assurance providers acting as a fourth line. Risks to the Company are owned and managed by the business or functional areas (first line of defence) and are subject to oversight and challenge by the Risk and Compliance functions (second line of defence) and independent assurance by Internal Audit (third line of defence).

Border to Coast is willing to accept certain levels of risk in managing its business to generate appropriate returns but does this in a controlled and deliberate manner. Risk appetite levels are proposed by the Risk function, working with the first line of defence, for review by the Board Risk Committee and ultimately approval by the Board through the Company's Risk Appetite Framework ('RAF'). Risk exposures are monitored each quarter against appetite, and reported to the relevant Executive Committee and the Board Risk Committee. The Risk function ensures that an effective escalation process is in place for all risks outside of the agreed risk appetite to the Executive Committee, the Board Risk Committee and the Board (if required). Climate change is not treated as a standalone risk category in our Risk Appetite Framework; it is instead considered within the related components of our risk appetite framework, such as strategy, customer outcomes and stewardship.

Metrics and targets

ASSESSING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Border to Coast uses several different tools to assess climate-related risk and opportunities.

We use third party carbon data from MSCI carbon portfolio analytics to implement carbon screening across all listed equity and fixed income portfolios which produces a carbon footprint relative to the portfolio benchmark, allowing for internal analysis of carbon risks.

This enables us to assess portfolios in a timely manner, identifying the largest emitters and contributors to the carbon footprint. This data and information are shared with the portfolio and research managers to inform analysis and investment decisions.

Carbon footprinting of unlisted investments is challenging as few private companies measure and report emissions data. We have not, therefore, to date conducted carbon footprints across our private market portfolios, due to the paucity of data and the relative maturity of these portfolios. This is an area where we will work with the industry to enable us to monitor our private market portfolios as they grow and mature.

Carbon footprinting a portfolio is only the first step in addressing the investment implications of climate change. It is important to acknowledge that it is only part of the "toolbox" and does not lend itself well to being viewed in isolation.

In particular any footprint measure is only as good as the underlying carbon emissions data; in some markets data disclosure is patchy, requiring estimations by data providers. The carbon footprint looks at a point in time and is by nature backwards looking and a static metric that measures only one aspect of a portfolio's exposure to climate-related transition risk. We need to identify trends developing as the data we have increases.

Carbon footprints only measure the negative contribution of a portfolio to climate change and ignore the potential positive contribution to the energy and climate change transition. Reducing holdings to cut portfolio emissions can in some cases be counterproductive as companies with high current emissions may be providing the future solutions for a transition to a low-carbon economy.

As noted, carbon footprinting, whilst useful, has its limitations and the results need to be used together with other methodologies to develop a more holistic understanding of the underlying contribution and exposure to risk. We therefore consider other metrics to help our understanding of the potential risks and opportunities within portfolios:

- We look at carbon emissions, carbon intensity and weighted carbon intensity when assessing carbon-related risk. Weighted carbon intensity (the metric recommended by the TCFD) measures a portfolio's exposure to carbon intensive companies and indicates a portfolio's exposure to potential climate change-related risks relative to other portfolios or a benchmark.
- TPI analysis is also used to support portfolio managers in their decision making and to oversee the risks within the portfolios. Carbon footprinting and TPI analysis are used to map our engagement activity undertaken through collaborations such as Climate Action 100+ and our external engagement provider.

Teesside Pension Fund

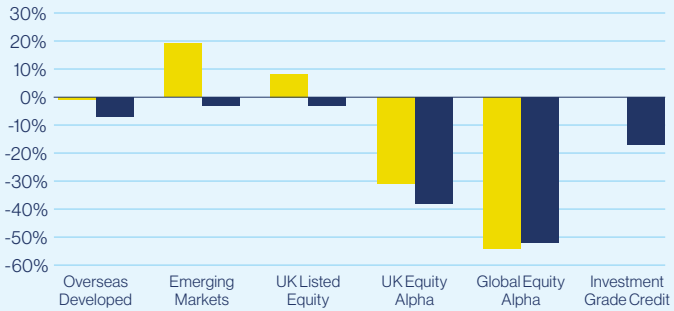
Metrics and targets continued

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse ('GHG') emissions, and the related risks.

At the time of this report Border to Coast has investments in listed equities, fixed income and private markets funds. Carbon footprinting of the index-linked bonds and private markets portfolios has not been conducted due in part to the paucity of available data and, in the case of private markets, the relative maturity of these portfolios. It should also be noted that carbon data coverage for fixed income markets generally is less mature and a systemic issue which the market is yet to address.

We consider carbon emissions, carbon intensity and weighted average carbon intensity data in assessing risks when conducting carbon footprints. The tables below give the carbon data for all three metrics relative to the benchmarks as of 31 March 2021 for the listed equity funds and Investment Grade Credit Fund.

Weighted average carbon intensity ('WACI') relative to benchmark

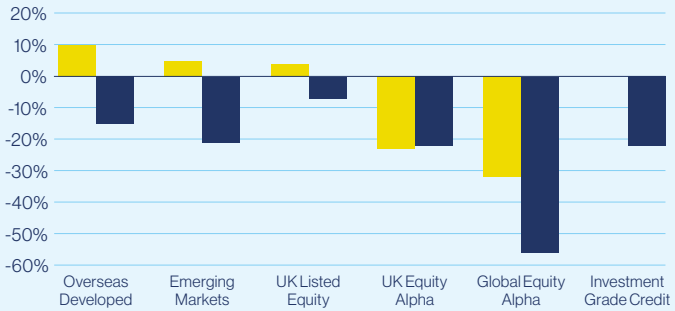


Source: MSCI ESG Research LLC, 31/03/2021.

As at 31/03/2020

As at 31/03/2021

Carbon intensity relative to benchmark



Source: MSCI ESG Research LLC, 31/03/2021.

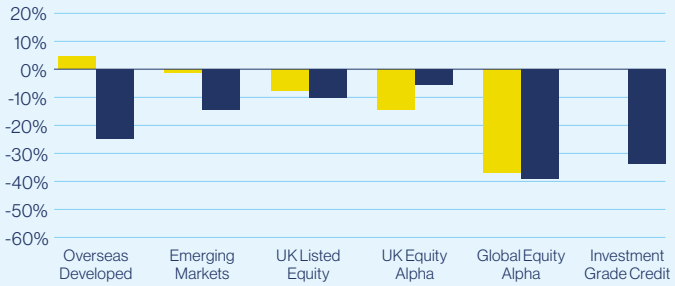
As at 31/03/2020

As at 31/03/2021

	Weighted average carbon intensity (tCO_2e/$m sales)		Carbon intensity (tCO_2e/$m sales)		Carbon emissions (per $m invested)	
Portfolio	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Overseas Developed	139	150	173	204	87	112
Emerging Markets	304	314	352	447	218	252
UK Listed Equity	126	130	132	142	117	129
UK Listed Equity Alpha	81	130	111	142	122	129
Global Equity Alpha	67	79	77	174	51	140
Investment Grade Credit	61	73	72	95	82	118

Source: MSCI ESG Research LLC, 31/03/2021.

Carbon emissions relative to benchmark



Source: MSCI ESG Research LLC, 31/03/2021.

As at 31/03/2020

As at 31/03/2021

Metrics and targets continued

Border to Coast's current funds are actively managed; therefore, carbon footprints may vary due to investment decisions made. Carbon footprints can increase at the same time as the carbon intensity decreases in a portfolio, and vice versa, and without the full picture it is impossible to understand the reasons behind this. Furthermore, some companies with a high carbon footprint may be important actors in the move to renewable energy and the transition to a low-carbon economy. Portfolio managers are required to document the investment rationale for the inclusion in the portfolio of companies with high carbon footprints to enable managers to be challenged and facilitate ongoing monitoring and review.

We operate a mix of internally and externally managed funds with differing styles and risk/return parameters and varying degrees of portfolio concentration versus benchmarks; all these factors can have an impact on carbon metrics. The internally managed funds have less concentrated portfolios than the externally managed funds, which means that they are more likely to exhibit a carbon footprint that is closer to that of the benchmarks.

There were some significant moves in the carbon data towards the end of the last reporting year away from trends as COVID-19 was just impacting stock markets and company valuations. This led to considerable falls in the benchmarks' total market capitalisation in Q1 2020. This temporarily resulted in a higher allocation to, and ownership of, companies with higher emissions. This particularly affected the calculations of carbon intensity and weighted average carbon intensity.

In this reporting period, there have been decreases in all carbon metrics both in absolute terms and relative to the benchmarks in all the funds. As the Investment Grade Credit Fund launched midway through April 2020 carbon metrics were measured from the end of June 2020 onwards. There were big falls versus the benchmark across all the metrics for this fund. A number of big emitters have been sold across listed equity and fixed income portfolios in sectors including oil and gas, utilities and airlines, all high-emitting sectors, reflecting the climate risk associated with companies in these sectors.

The carbon data allows us to identify the largest emitters and contributors to the overall carbon footprint by portfolio. As carbon data is backward looking, we use this alongside other data and tools at our disposal to further analyse the potential risks and opportunities within portfolios. We therefore consider other metrics which include exposure to fossil fuel reserves, strength of carbon risk management and clean technology exposure. We also utilise the data from the Transition Pathway Initiative ('TPI') to track how portfolio companies are managing climate risk. It should be noted that carbon data can fluctuate widely depending on when and how data is updated by the provider. Therefore, considering carbon data at a single point in time may not be representative and monitoring data over multiple periods is more appropriate.

Carbon Metrics – Definitions

Carbon emissions (per million dollars invested)

Carbon emissions normalises the carbon emissions for every $1,000,000 of market value. As a normalised metric, it can be used to accurately compare portfolios of any size. It is sensitive to changes in market value of the portfolio and is only applicable to equity portfolios.

Carbon intensity

Carbon intensity expresses the carbon efficiency of the portfolio and allows investors to measure the volume of carbon emissions per dollar of sales generated by portfolio companies over a specified timeframe. This metric adjusts for company size and is a more accurate measurement of the efficiency of output, rather than a portfolio's absolute footprint. It requires underlying issuer market cap data. It is only applicable to equity portfolios.

Weighted average carbon intensity ('WACI')

This measures a portfolio's exposure to carbon intensive companies. Companies with higher carbon intensity are likely to face more exposure to carbon-related market and regulatory risks; this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios or relative to a benchmark. Carbon emissions are apportioned based on portfolio weights/exposure, rather than the investor's ownership share of emissions or sales. WACI gives the ability to compare data more easily across asset classes.

North Yorkshire County Council

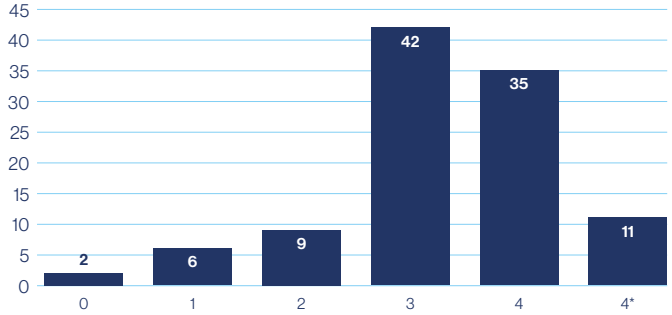
Metrics and targets continued

The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers; it uses a framework to evaluate the quality of companies' management of greenhouse gas emissions associated with their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. The TPI currently covers over 400 publicly listed companies and coverage continues to increase. Companies' management quality is assessed against a series of indicators, covering issues such as company policy, emissions reporting and verification, targets, strategic risk assessment and executive remuneration. Based on their performance against the indicators, companies are placed on one of six levels:

- Level 0 – Unaware of (or not acknowledging) climate change as a business issue
- Level 1 – Acknowledging climate change as a business issue
- Level 2 – Building capacity
- Level 3 – Integrated into operational decision making
- Level 4 – Strategic assessment
- Level 4* – Satisfies all management quality criteria

The TPI tool is used to assess portfolio companies and their scores. This shows how companies are managing climate risk and improvements in company practices over time and identifies targets for engagement. This information is also used to inform voting decisions and is reflected in Border to Coast's revised Voting Guidelines for 2021 where a vote against the chair of the board will be cast if the company is rated 0 or 1 by the TPI and is not considered to be making progress. We map the largest emitters against the TPI scores, which shows improvements in company practices over time and identifies targets for engagement. The majority of the largest carbon emitting companies are also covered by collaborative engagement initiatives, with some gaps in coverage in Japan and emerging markets. Portfolio managers provide investment rationale for holding the top emitters in portfolios.

TPI levels – Border to Coast portfolio companies



A total of 105 Border to Coast portfolio companies have been rated by the Transition Pathway Initiative ('TPI') representing approximately 13% of our assets under management. Out of the 105 portfolio companies rated by the TPI, a total of 88 (84%) were ranked Level 3/4/4* for their management quality of carbon. TPI determines that these companies are "integrating climate change into operational decision making" and/or making a "strategic assessment" of climate. The total number of companies covered by TPI has increased from 96 to 105 companies in the year, and the number of 4* rated companies has increased from four to eleven.

Weight of companies owning fossil fuel reserves

The weight of companies holding fossil fuel reserves within both the portfolio and the benchmark is also assessed in order to consider the scale of risk around stranded assets. The percentage of portfolio companies owning fossil fuel reserves is broadly in line or underweight to their respective benchmarks. The data is illustrated in the chart below.

Portfolio	Weight of companies owning fossil fuel reserves	Benchmark weight of companies owning fossil fuel reserves
Overseas Developed	7%	7%
Emerging Markets	11%	9%
UK Listed Equity	12%	13%
UK Equity Alpha	12%	13%
Global Equity Alpha	3%	6%

Source: MSCI ESG Research LLC, 31/03/2021.

Weight of companies owning clean technology solutions

As well as monitoring the exposure to fossil fuels the weight of companies contributing to a low-carbon transition is also assessed. This shows the Emerging Markets Fund is more heavily weighted to providing clean technology solutions than the more developed markets.

Portfolio	Weight of companies owning clean technology solutions	Benchmark weight of companies owning clean technology solutions
Overseas Developed	37%	39%
Emerging Markets	45%	36%
UK Listed Equity	23%	24%
UK Equity Alpha	22%	24%
Global Equity Alpha	28%	36%

Source: MSCI ESG Research LLC, 31/03/2021.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance targets.

We actively engage with companies in relation to carbon risk management; however, no carbon reduction targets for portfolios have been introduced but this remains actively under review with our Partner Funds to be able to support any net zero commitments made.

BORDER TO COAST

PENSIONS PARTNERSHIP

www.bordertocoast.org.uk

South Yorkshire Pensions Authority

Warwickshire Pension Fund