2021
2022

TCFD REPORT

BORDER TO COAST

BORDER TO COAST
PENSIONS PARTNERSHIP

INTRODUCTION

Border to Coast Pensions Partnership was created to pool the investments of 11 like-minded Local Government Pension Scheme ('LGPS') funds – our 'Partner Funds'.

As a customer-owned, customer-focused business, our vision is to make a difference for the Local Government Pension Scheme. We develop and operate collective investment vehicles across a range of asset classes both in public and private markets for our Partner Funds, who are our customers and shareholders, to invest in to implement their strategic asset allocations.

As a responsible investor, Border to Coast has a role to ensure businesses are resilient to risks and any regulatory changes which emerge to manage such issues. Climate change is a systemic risk and a key risk for us as an investor which can have a material impact on the value of financial assets and on the long-term performance of investments. Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We are long-term investors and actively consider how climate change will affect investments across all asset classes in order to better manage risk and generate sustainable, long-term returns.

To reflect the significance and potential severity of the impacts of climate change, in September 2021 we announced our commitment to achieve net zero greenhouse gas emissions across our investment portfolios by 2050 or sooner and became a member of the Net Zero Asset Managers initiative. We will be publishing our roadmap to net zero in Autumn 2022.

Border to Coast 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. Our approach is outlined more fully in our Annual Responsible Investment & Stewardship Report which can be found along with further information on our approach to Responsible Investment more generally on our website.

This report communicates 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.

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Find out more:
bordertocoast.org.uk

Front cover: East Riding
Image above: South Yorkshire

Governance

ASSESSING AND MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Task Force on Climate-related Financial Disclosures ('TCFD') was set up in 2015 by the Financial Stability Board. Its remit was to develop a common global framework for companies to report on how climate change will affect their business. Recommendations were published in 2017, setting out a clear and consistent structure for climate-related financial disclosures. Updated guidance was published in 2021, to reflect evolving disclosure practices. This provides both general and sector-specific guidance on implementing TCFD recommendations.

Describe the Board's oversight of climate-related risks and opportunities.

The Board determines the Company's overall strategy for climate change and, with support from the Board Risk Committee, oversees the identification and management of risk and opportunities. 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 seven times over the financial year to 31 March 2022, and the Board Risk Committee met five times. Agenda items covered investment, Responsible Investment and risk management. During the year the Board approved the Climate Change Policy and the commitment to being net zero as a company and investor. 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.

Responsible investment ('RI') is fundamental to our investment approach. The RI Policy and accompanying Climate Change Policy and Corporate Governance and Voting Guidelines ('Voting Guidelines') detail the approach that we follow. The Chief Investment Officer ('CIO') is responsible for the implementation and management of the afore mentioned policies which are reviewed annually, taking into account evolving best practice, and updated as needed. The Investment Committee, which is chaired by the Chief Executive Officer, performs the oversight function.

RI matters are a standing agenda item at weekly Investment Strategy Committee meetings, chaired by the CIO, with in depth presentations on Environmental, Social and Governance ('ESG') and climate-related risks covered quarterly. ESG, including climate change, are discussed in relation to potential investments at the Alternative Investments Strategy Committee meetings. Reports are presented to the Investment Committee which include voting and engagement statistics, ESG and carbon data, and updates on collaborative responsible investment initiatives, such as Climate Action 100+ ('CA100+'), for monitoring purposes.

We have continued to develop our approach to climate change working closely with our Partner Funds. This has included the publication of our Climate Change Policy and making a commitment to being net zero by 2050, or sooner, across our investment portfolios. A project group has been set up with five workstreams to support the implementation of the Climate Change Policy and net zero commitment.

TCFD FRAMEWORK

Governance
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.

OUR STRATEGY TO MANAGE RISK


Durham

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

We consider climate-related risks over the short, medium, and long-term. Climate change is a systemic risk with drivers that have the potential to impact economies. We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions. The latter relates to the physical impacts of climate change arising from a changing climate and their associated costs. 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, wildfires, rising sea levels and flooding.
- Technological changes – innovations such as battery storage, energy efficiency, and carbon capture and storage.
- Regulatory and policy impact – changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk – this may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements, 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. Our second private markets programme includes a dedicated Climate Opportunities offering targeting investments that will have a material positive impact on climate change and support long-term net zero carbon emission goals.

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 CA 100+ Net Zero Company Benchmark indicators to assess companies and inform company engagement. To monitor progress, we map portfolio holdings to engagement being conducted on climate risk by our engagement partner (Robeco) and other collaborations we are involved in.

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

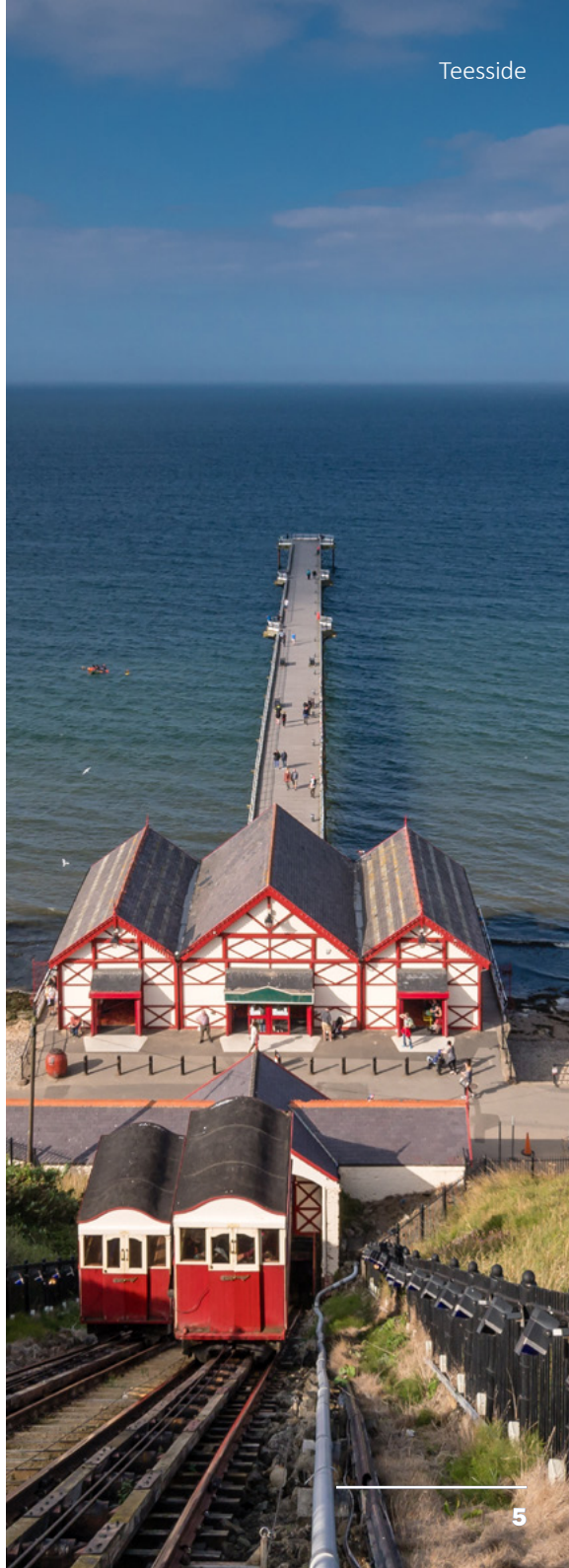
Our strategic business planning process also considers our customers' needs and expectations with respect to Responsible Investment, which includes climate change risk. This has supported the development and embedding of various tools to support our portfolio managers in investment decision making (for both internally and externally managed mandates). Our second three-year RI strategy, running from 2022 – 2025, has been agreed taking into account industry evolving best practice, regulatory change and key trends. The strategy has four pillars: integrating ESG, active ownership, industry advocacy and engagement, and reporting and governance. Climate change is an integral part of each of these four areas. The strategy is reviewed on a regular basis by the Board and Partner Funds.

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.

As part of our net zero commitment, we are continuing to evolve our investment process incorporating climate change considerations. This includes developing an enhanced framework for carbon analysis and using a wide range of data and tools. Stewardship is a critical area if the world is to meet the Paris goals, we are therefore developing our net zero engagement strategy using the Institutional Investors Group on Climate Change's ('IIGCC') Net Zero Stewardship Toolkit.

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

Border to Coast's strategy is to support our Partner Funds to implement Investment Strategy and ultimately to make a difference to the LGPS. The extent of the impact of climate change on our strategy is therefore inextricably linked to the impact on our Partner Funds. 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 continues to improve. In late 2021 we undertook a procurement for ESG and carbon data which included scenario analysis. During 2022 we will be evaluating the tools and conducting analysis using a number of different scenarios.


Teesside

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, assessment and management of risks within their span of control. Risks are identified via a number of processes, including horizon scanning, strategic planning, emerging risk processes, our risk and control self-assessment process, and the Internal Capital Adequacy Assessment Process ('ICAP'), which was replaced by the Internal Capital and Risk Assessment ('ICARA') process on 1st January 2022. Identified risks are classified into specific types of risk which are managed in line with the Company's Risk Management Framework. Our overall risk profile is reported to the Board Risk Committee on a quarterly basis, where it is subject to review and challenge.

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. To reflect that climate change as a systemic risk, that 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. Although climate-related data and disclosures are still poor for some geographies and asset classes they are improving along with the tools investors need to assess and manage climate risk. We use a variety of data sources to continually develop and evolve our approach to managing climate risk and reporting and to support our net zero commitment. 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.
- Active stewardship and engaging with companies, industry and policy makers is a key component for reaching net zero and an integral part of our net zero strategy. We engage with portfolio companies on 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 the CA 100+ and the Local Authority Pension Fund Forum ('LAPFF'); directly by members of the Border to Coast Investment Team and we also expect our external asset managers to engage with companies on climate risk.
- As members of the IIGCC we engage collaboratively alongside other institutional investors with policy makers.
- We vote all equity portfolio holdings according to our Voting Guidelines, which are administered by our voting and engagement provider. The Voting Guidelines have been updated for the 2022 proxy season, further strengthening our stance on climate change. Additions include voting against the Chair of the board where a company covered by CA100+ Net Zero Benchmark fails the first four benchmark indicators.
- 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, which are deemed to be institutional quality shareholder resolutions consistent with our RI policies, after conducting due diligence.

We have pledged to achieve net zero greenhouse gas emissions across our investment portfolios by 2050 or sooner and are a member of the Net Zero Asset Managers' initiative. Our roadmap to achieving net zero will be published in Autumn 2022 and will include:

- Setting interim targets for 2025 and 2030, supporting efforts to achieve a material reduction in CO2 emissions in line with a recognised science-based pathway up to a 50% global reduction in CO2 emissions;
- Engaging with policymakers, regulators, and companies to achieve real economy emissions reductions within the sectors and companies in which we invest;
- Creating and evolving investment propositions aligned with net zero emissions by 2050, such as our Climate Opportunities offering in private markets, and facilitating increased investment in climate transition solutions;
- Working with the industry to improve carbon data disclosure and transparency in fixed income and private markets, where information is currently unreliable; and
- Implementing a revised stewardship and engagement strategy with a clear escalation and voting policy that is consistent with being net zero across our investments by 2050 or sooner.

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

Border to Coast is willing to accept certain levels of risk in managing its business to generate appropriate returns for its customers but does this in a controlled and deliberate manner. Risk appetite levels are proposed by the Risk function within the Company's Risk Appetite Framework, working with the first Line of Defence, for review by the Board Risk Committee and approval by the Board. Risk exposures are monitored at least quarterly against appetite, 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.

The objectives and considerations for the approach to managing responsible investing in relation to climate change, is set out from an investment perspective within the Climate Change Policy and certain proposition performance targets.

Lincolnshire

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 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. The data and information are shared with the portfolio and research managers to inform analysis and investment decisions.

Carbon footprinting of unlisted investments is challenging due to the lack of reporting and disclosure of carbon emissions data by private companies and private equity fund managers. We have therefore not conducted carbon footprints across our private market portfolios due to the paucity of data available. To enable monitoring of carbon emissions we are sourcing data from a third-party provider; this will be assessed during 2022 with the aim to report the following year. We are working with the industry, supporting the ESG Data Convergence Project which is an initiative to standardise ESG reporting on a core set of ESG metrics including greenhouse gas emissions. This is the industry's first-ever collaboration to align on an initial set of standardised ESG metrics and mechanism for comparative reporting and is a good baseline for establishing carbon/ESG data collection and furthering implementation in Private Equity.

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 and not necessarily have an impact on reducing real world emissions. 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 average carbon intensity ('WACI') when assessing carbon-related risk. WACI, one of the metrics 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.
- We use Climate Action 100+ Net Zero Benchmark indicators and TPI analysis 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.

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

When considering public reporting of carbon data, we firstly assess the data quality and coverage for asset classes and our Funds. We ensure we understand the data and any limitations and gaps. We aim to be transparent about the reliability of our reporting. This means that in some cases our reporting may be heavily caveated due to data quality and/or inconsistencies in the methodology or assumptions used to generate data where it is incomplete.

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, Multi Asset Credit 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 immaturity of these portfolios. As the Sterling Index-Linked Bond Fund consists mainly of sovereign bonds, we are awaiting guidance from the ASCOR project: Assessing Sovereign Climate-Related Opportunities and Risks, which is developing an assessment framework to enable the climate performance of sovereigns. 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. Our Listed Alternatives Fund was launched in mid-February 2022 and has therefore been excluded from this year's disclosures.

Border to Coast's current funds are actively managed; therefore, carbon footprints may vary due to the 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.

We consider carbon emissions, carbon intensity and weighted average carbon intensity data in assessing risks when conducting carbon footprints. Reporting of data is on a three-year rolling basis and the charts on the following page give the carbon data for all three metrics relative to the benchmarks for the last three reporting periods (31st March 2020 to and including 31st March 2022) or since inception for Funds launched post 2020. Reporting covers the listed equity funds and Sterling Investment Grade Credit Fund.

Bedfordshire

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.

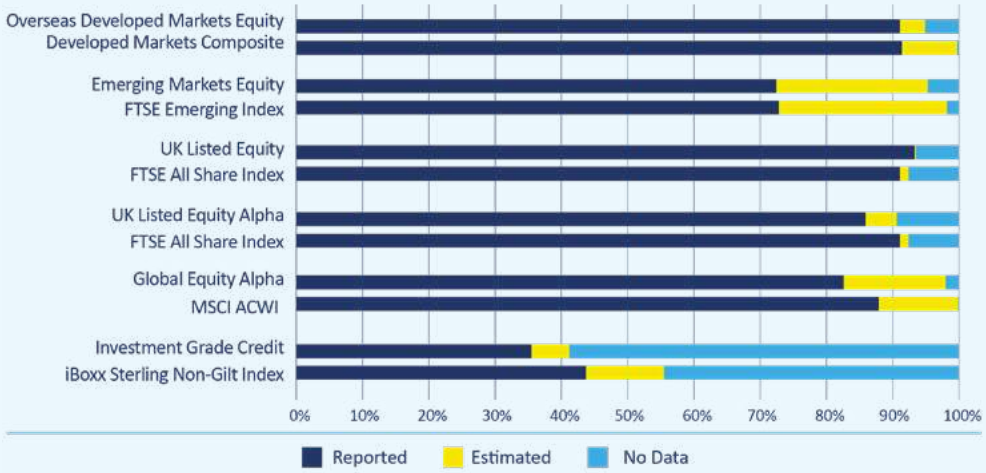
Carbon intensity

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.

Data availability

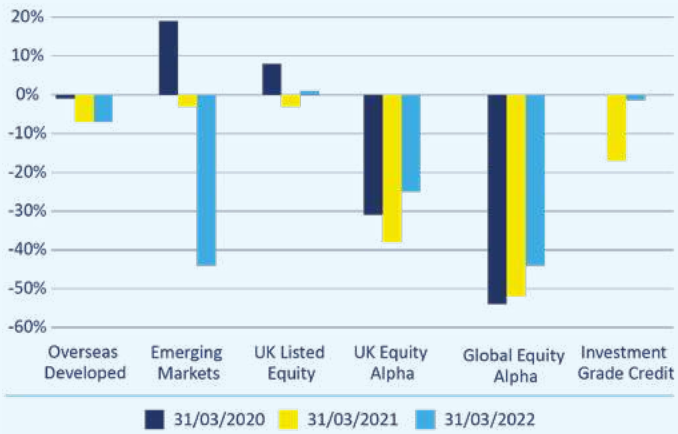


Source: MSCI ESG Research LLC, 31/03/2022

	Weighted average carbon intensity (tCO2e/$m sales)		Carbon intensity (tCO2e/$m sales)		Carbon emissions (per $m invested)	
Portfolio	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Overseas Developed	139	149	162	186	84	101
Emerging Markets	211	376	247	438	101	234
UK Listed Equity	134	132	132	138	100	106
UK Listed Equity Alpha	99	132	106	138	96	106
Global Equity Alpha	90	160	119	187	78	78
Investment Grade Credit	65	66	56	74	67	104

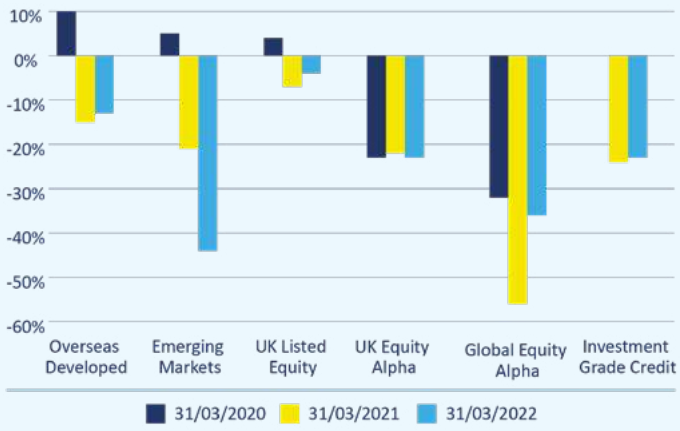
Source: MSCI ESG Research LLC, 31/03/2022

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



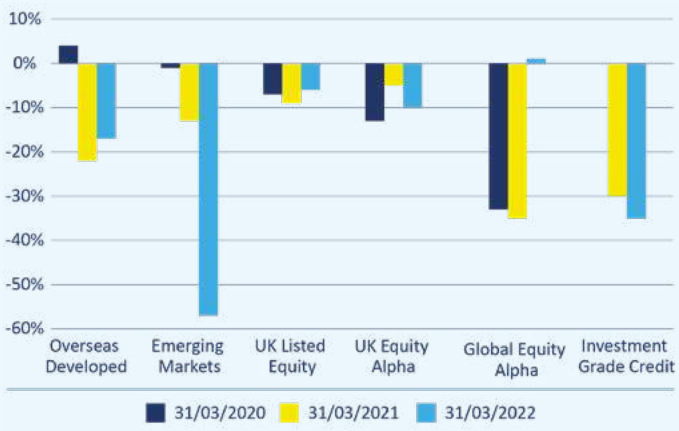
Source: MSCI ESG Research LLC, 31/03/2022

Carbon intensity relative to benchmark



Source: MSCI ESG Research LLC, 31/03/2022

Carbon emissions relative to benchmark



Source: MSCI ESG Research LLC, 31/03/2022

Data availability is more challenging in fixed income markets. Issuers of debt may not be covered by third party data providers or, may be mapped to the parent company often operating in a different sector to the issuer itself. We provided disclosure for our Sterling Investment Grade Credit Fund for the first time last year without subsidiary mapping and have maintained this approach for this year's disclosures. This is due to our view that, despite data availability being lower, the data quality is higher. Portfolio coverage of reported data is c.36% compared to the benchmark which is c.44%.

We have made a commitment to being net zero across our investment portfolios by 2050, or sooner, and we will set targets for the short, medium and long-term. It should be noted that this is unlikely to be a smooth downward trend as there may be instances when emissions increase from one period to the next; however, the long-term trend is more important than any short-term fluctuations.

Over the three-year period covered in this report all Funds are either in-line or significantly below their benchmark for WACI. The biggest movement has been seen in the Emerging Market Fund following its restructuring in the second quarter of 2021. In absolute terms all Funds have shown decreases or remained stable.

The carbon intensity of the majority of Funds is significantly below the respective benchmark and Funds have either shown material reductions over the period or remained stable. Again, the Emerging Markets Fund stands out due to the restructuring undertaken.

The carbon emissions of most of the Funds relative to the benchmark have either further decreased or maintained an underweight position over the period; some are materially below benchmark. The only anomaly being Global Equity Alpha, where emissions are in-line with the benchmark. However, in absolute terms all Funds have seen reductions, some significant, over the three-year period.

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 use the CA100+ Net Zero Benchmark indicators and we also use the data from the CA100+ Net Zero Benchmark assessments and 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. This year we have included the last three years' data.

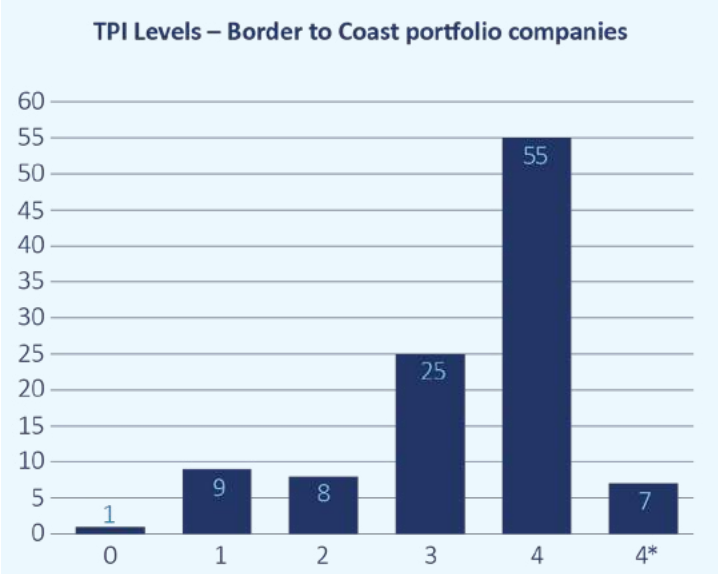
Surrey

TRANSITION PATHWAY INITIATIVE

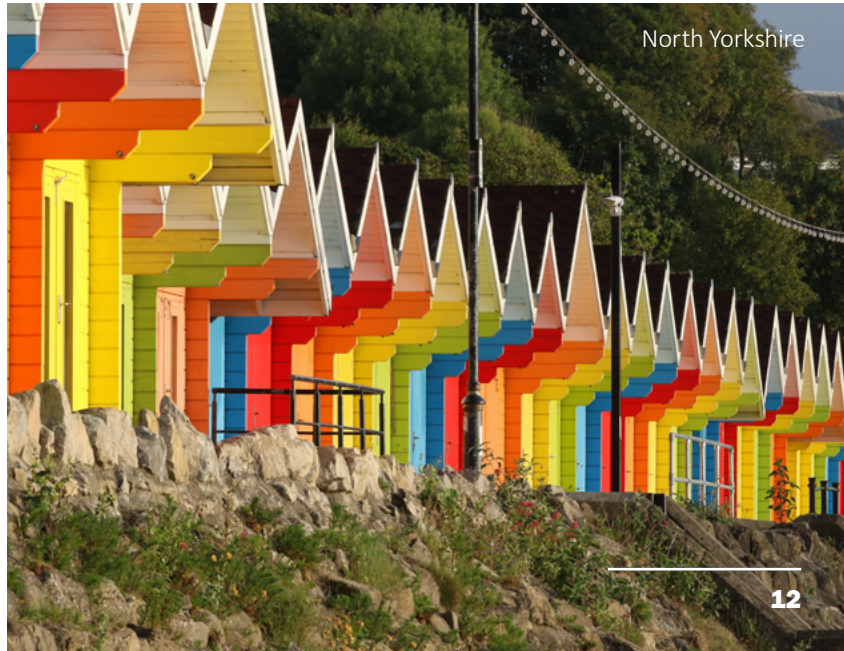
The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers; it uses a framework to evaluate the quality of companies' management of greenhouse gas emissions associated with their business. It also assesses companies' planned or expected future 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 Voting Guidelines 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 slight gaps in sector coverage and in emerging markets. Portfolio managers provide investment rationale for holding the top emitters in portfolios.

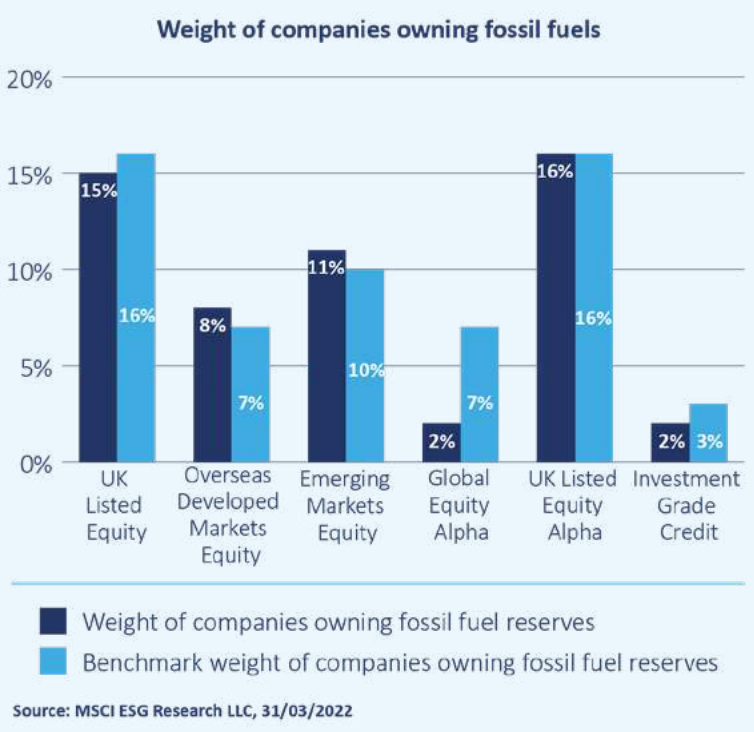


A total of 105 Border to Coast portfolio companies have been rated by the TPI, representing approximately 12% of our assets under management. Out of the 105 portfolio companies rated by the TPI, a total of 87 (83%) were ranked Level 3/4/4* for their management quality of carbon. TPI determines that these companies are "integrating climate change into operational decision making" and/or making a "strategic assessment" of climate change. Although the total number of companies covered by TPI has remined the same there has been a number of changes within the individual Levels. For example, 18 companies were upgraded from Level 3 to Level 4 in the year. Conversely, six Level 4* companies were downgraded to Level 4. The result is a large year-on-year increase in the number of Level 4 rated companies. Furthermore, in 2021 Border to Coast held two Level 0 rated companies. Both of these were upgraded in the reporting year to Level 1 and the single Level 0 rated company is a new holding resulting from the restructuring of the Emerging Markets fund.



Companies owning fossil fuels

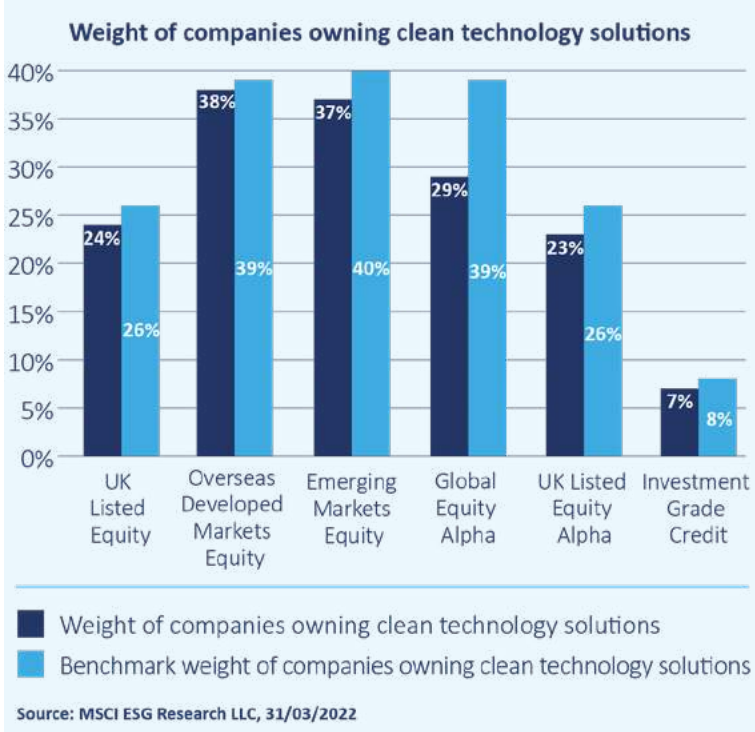
The proportion of companies holding fossil fuel reserves within both the portfolio and the benchmark is also assessed in order to consider the scale of risk around stranded assets. The percentage of portfolio companies owning fossil fuel reserves is broadly in line or underweight to their respective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



Source: MSCI ESG Research LLC, 31/03/2022

Companies owning clean technology solutions

As well as monitoring the exposure to fossil fuels the proportion of companies contributing to a low-carbon transition is also assessed. There is currently no industry standard definition for clean technology solutions; as our data provider is MSCI we use their methodology which may differ from that of other data providers. Our Overseas Developed Markets Equity Fund and Emerging Markets Equity Fund have the highest allocation to companies providing clean technology solutions.



Source: MSCI ESG Research LLC, 31/03/2022

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 were introduced during this reporting year. To support our net zero commitment, we became signatories to the Net Zero Asset Managers initiative. This is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. Following this, we set up a project to support the net zero commitment and the publication of the roadmap which incorporates short, medium and long-term targets and includes work in relation to the degree of portfolio alignment. It is our intention to publish our net zero roadmap in the Autumn of 2022.

Border to Coast Pensions Partnership Limited is authorised and regulated by the Financial Conduct Authority (FRN 800511).

Registered in England (registration number 10795539) at the registered office:

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