Public Document Pack

Finance, Governance and Support

TEESSIDE PENSION FUND COMMITTEE

Date: **Wednesday 9th December, 2020**
Time: **11.00 am**
Venue: **Virtual Meeting**

AGENDA

Please note: this is a virtual meeting.

The meeting will be live-streamed via the Council's Youtube channel at 11.00 am on Wednesday 9th December, 2020

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Tuesday 1 December 2020

MEMBERSHIP

Councillors D Coupe (Chair), E Polano (Vice-Chair), J Beall, W Ayre, A Bell, B Cooper, S Dean, Mr P Fleck, Mr B Foulger, T Furness, J Hobson, J Rostron, Z Uddin, Mr T Watson, G Nightingale and Vacancy

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Susan Lightwing, 01642 729712, susan_lightwing@middlesbrough.gov.uk

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 16 September 2020.

PRESENT: Councillors Coupe, (Chair), Bell, Cooper, Dean, Furness, J Hobson, Polano, Rostron and Uddin

A Watson, Unison Representative

Other Local Authority Member:
Councillor Beall, Stockton on Tees Council

ALSO IN ATTENDANCE: W Bourne and P Moon, Investment Advisors
A Stone, Border to Coast Pensions Partnership
G Hall, XPS Administration
C Keegans, The Ethical Housing Company
A Owen and Peacock, CBRE
M Rutter, EY

OFFICERS: S Bonner, W Brown, M Jackland, S Lightwing, N Orton, I Wright

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Nightingale, P Fleck
.

DECLARATIONS OF INTERESTS

Name of Member	**Type of Interest**	**Item/Nature of Interest**
Councillor Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor Cooper	Non pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non pecuniary	Member of Teesside Pension Fund
Councillor Uddin	Non pecuniary	Member of Teesside Pension Fund

1 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 22 JULY 2020**

The minutes of the meeting of the Teesside Pension Fund Committee held on 22 July 2020 were taken as read and approved as a correct record, subject to the following amendment:

Councillor Bell to be added to the attendance.

2 **INVESTMENT ACTIVITY REPORT**

A report of the Director of Finance was presented to inform Members of the Teesside Pension Fund Committee how the Investment Advisors' recommendations were being implemented.

A detailed report on the transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's valuation was included, as well as a report on the treasury management of the Fund's cash balances and the latest Forward Investment Programme.

The Fund continued to favour growth assets over protection assets and currently had no investments in Bonds. The cash levels at the end of June 2020 were 11.5%. As previously agreed, the Fund would look to use this cash to move away from its overweight position in equities and invest further in Alternatives.

Investment in direct property would continue on an opportunistic basis where the property had good covenant, yield and lease terms. No property transactions were undertaken in this quarter.

During the quarter, £22.8m was invested in Alternatives. The Fund was considerably underweight its customised benchmark and, providing suitable investment opportunities were available, would look to increase its allocation to this asset class up to the customised benchmark level.

Appendix A to the submitted report detailed transactions for the period 1 April 2020 to 30 June 2020. There were net sales of £22.8 million in the period, this compared to net sales of £5.06 million in the previous reporting period.

As at 30 June 2020, the Fund had £472.9 million invested with approved counterparties. This was a decrease of over £28.4 million over the last quarter. Appendix B to the submitted report showed the maturity profile of cash invested as well as the average rate of interest obtained on the investments for each time period.

The total value of all investments as at 30 June 2020, including cash, was £4,150 million, compared with the last reported valuation as at 31 March 2020, of £3,733 million. In terms of the year-on-year valuation the funding level was broadly flat.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 June 2020 compared with the Fund's customised benchmark.

The Forward Investment Programme provided commentary on activity in the current quarter as well as looking ahead to the next three to five years. Details of the current commitments in equities, bonds and cash, property and alternatives were included in paragraph 8 of the submitted report.

Members' attention was drawn to the variance of £39m between the valuation provided by the Fund's custodian Northern Trust and the internal reconciliation produced. There were a number of assets that were either not recorded or were not showing the correct current valuation. The Head of Pensions Governance and Investments would work with the Custodian to resolve these issues.

ORDERED that the report was received and noted.

3 **EXTERNAL MANAGERS' REPORTS**

A report of the Director of Finance was presented to provide Members with quarterly investment reports in respect of funds invested externally with Border to Coast Pensions Partnership Limited (Border to Coast) and with State Street Global Advisers (State Street).

As at 30 June 2020 the Fund had investments the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Developed Markets Equity Fund.

The Fund also had investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. Total commitments of £50 million were made to each of these sub-funds for 2020/2021, although up to 30 June 2020 only a small proportion of this total had been invested. These investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report.

Appendix A detailed the market value of the portfolio as at 30 June 2020 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast had also provided information in relation to the Overseas Developed Markets Equity Fund, giving a breakdown of key drivers of, and detractors from performance, in relation to each of its four regional elements, market background information and an update of some news items. The report also included information about responsible investment and State Street's method of tracking and governance - referred to as the R factor. A Member noted that a further £7 million had been invested in British American Tobacco.

The State Street report, attached to the submitted report at Appendix B, showed the market value of the State Street passive equity portfolio and the proportions invested in each region as at 30 June 2020.

ORDERED that the report was received and noted.

4 **PRESENTATION FROM BORDER TO COAST HEAD OF CLIENT RELATIONS**

The Head of Client Relations gave a presentation providing updates on Border to Coast, the Market, Equity Funds, Private Equity and Infrastructure.

The following issues were highlighted:

- As at 30 June 2020, the Border to Coast Team had a team of 84 employees. This was an increase of 10 FTEs, seven of whom were at mid-senior levels of experience.
- There had been nine funds launched over the last two years and Teesside Pension Fund had invested in four of these. An Index Linked Bond Fund was due to go live in the next month and a number of Alternatives, Fixed Income and Property Funds were scheduled for 2021.
- Lockdown had caused a significant impact hit to US growth and employment. There had been enormous stimulus packages globally. However, even pre-Covid-19 there had been significant challenges due to ageing populations and near-record debt levels. Liquidity from central banks would only postpone debt problems rather than resolve them.
- Whilst there had been significant volatility in the equity markets throughout the first half of the year, as of 8 June 2020 the market was flat year-to-date.
- Looking forward near-term deflation from ongoing lockdown restrictions and reduced spending was likely with potential inflation in the long-term. Other uncertainties included Brexit, US election income and US/China relations. On a more positive note for financial markets there was the possibility of a Covid-19 vaccine.
- The UK Listed Equity Fund's performance over the last quarter was in line with the benchmark.
- The Overseas Developed Equity Fund's performance had beaten the benchmark by almost 0.4% over the last quarter.

Responding to a question regarding the huge financial stimulus from central banks over the last few months, the External Advisers agreed that it was likely that markets would rise steadily for the next two to four years and thereafter there would be rising inflation.

In relation to a query regarding employee salaries and bonuses it was clarified that BCPP did not have a bonus scheme. All employee costs were detailed in the Company's accounts which were available on the BCPP website.

ORDERED that the report was received and noted.

5 **INVESTMENT ADVISORS' REPORTS**

The Independent Investment Advisors had provided reports on current capital market conditions to inform decision-making on short-term and longer-term asset allocation, which were attached as Appendices A and B to the submitted report.

Both Advisors provided further commentary at the meeting There were two asset classes - equities and alternatives- that looked slightly more attractive relative to others at present. It was suggested that the Fund could consider investing more money into overseas funds and also consider what could be done to mitigate the threat of higher inflation.

ORDERED that the information provided was received and noted.

6 **CBRE PROPERTY REPORT**

In terms of the volumes the market was very weak and probably down to less than 25% of normal turnover. Demand was for stock in long-let offices, supermarkets and prime logistics. Pricing was remaining stable in those sectors and in some cases improving due to supply and demand.

Retail warehousing had recovered much more quickly than the high street. Some tenants were in difficulty but the Fund's portfolio seemed reasonably protected. The logistics sector was benefitting from the boom in online retailing, with the knock-on effect being that people needed to move goods around and store them. There was particular demand for the 'last mile' type space, needed to get people's goods delivered in the speed they now expected. The majority of the Fund's assets were in these two sectors which was positive.

At 30 June 2020, the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £269.1m. There had been no sales during the period. The Fund had agreed terms to purchase a highly regarded long-let supermarket.

The total collectible arrears on the portfolio at 20 August 2020 was £2,206,396. The Committee was informed that as at 15 September 2020, that figure had reduced to £1,000,456, thanks to the hard work of the collection team at CBRE. Tenants that were insolvent, had overall credit balances on their accounts or who were negotiation regears or lease renewals, were not included in the collectable arrears total. Completion of new agreements was dependent on arrears being cleared. Updates were provided on the status of tenants with the greatest arrears, which accounted for 35.3% of the total arrears. The overall view was that the Fund was doing better than others. 65.22% of the June quarter rent had been collected and this figure had now increased to 87%.

In relation to asset management activity, three new leases had been agreed as well as a rent increase. CBRE was actively looking at two or three opportunities which might be of interest to the Fund.

In relation to occupancy demand, the Committee was informed that tenants were seeking turnover rents rather than fixed rents, which was an additional risk for landlords. At the moment this was limited to the retail market in most cases and for shorter leases such as for 3 or 5 years. There was uncertainty in the office sector where tenants were looking for more flexibility. It was confirmed that the Teesside Pension Fund portfolio did not have a large weighting in retail or office space.

ORDERED that the information provided was received and noted.

7 **UPDATE ON CURRENT ISSUES**

A report of the Director of Finance was presented to provide Members with an update on current issues affecting the Local Government Pension Scheme (LGPS).

On 16 July 2020, the Government published its consultation on draft regulations in response to the McCloud/Sergeant Court Cases. These proposals were designed to remove the unlawful discrimination caused by the protection of older members when the LGPS was reformed in 2014.

The regulations would have a retrospective effect and all qualifying leavers since 1 April 2014 would have to have their benefits reassessed to check whether the underpin would have provided higher benefits.

The proposals represented a significant challenge for LGPS pensions' administrators. Increasing members' benefits would also result in a cost to employers. XPS Administration was planning how to resource and implement the new underpin and had already communication with employers to advise the additional data would be required in respect of scheme members affected. XPS was also collating a response to the consultation which would be shared and agreed with the Head of Pensions Governance and Investments prior to submission.

Following on from Government proposals highlighted in the 2015 Spending Review, subsequent consultation and legislation in 2016, and consultation from HM Treasury in 2019, the Government published further consultation on 7 September 2020 entitled 'Reforming local government exit pay - a consultation on the reform of exit payments in local government.'

It was proposed that there should be a £95,000 cap on the total of all forms of compensation, including redundancy payments, pension top ups, compromise agreements and special severance payments.

This was a complex situation to administer as it gave Scheme Members a range of choices and the Pension Fund was unable to provide financial advice to its Members.

The Head of Pensions Governance and Investment, in discussion with the Chair and Vice Chair of the Committee, would submit a response to the consultation, as the administering authority, on behalf of the Teesside Pension Fund.

The Government had confirmed that under new regulations, pension fund administering authorities could review employer contributions between actuarial valuations. The approach to be taken needed to be set out in the Fund's Funding Strategy Statement. There would also be more flexibility when employers left the scheme, allowing them to spread any exit payments over a period of time, rather than asking for an up-front payment. Again, the parameters would need to be set out in the Funding Strategy Statement and a proposal would be brought to the Committee prior to consultation with employers.

Following a Supreme Court ruling (Walker v Innospec), the Government had recently decided that surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members would receive benefits equivalent to those received by widows of opposite sex marriages. A consultation on the required regulatory changes was expected and the Fund would then need to investigate affected members and notify them of changes as required. The Fund Actuary had indicated that any increase in pension liability was likely to be minimal, although this was another administrative burden to be managed.

Finally, in 2014 the Government indicated its intention that the earliest age most individuals would be able to choose to draw a pension would increase from age 55 to age 57 with effect from 2028. This proposal had been mentioned recently again in Parliament. As and when more clarity was provided, suitable information would be provided to scheme members and the Committee.

ORDERED that the information provided was received and noted.

8 **XPS PENSIONS ADMINISTRATION REPORT**

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

Since 20 July 2020, the office had been open five days a week for those staff who wished to return following the Government lockdown due to Covid-19. Approximately 12 to 15 staff were working in the office on most days.
In relation to the McCloud Case, XPS was considering creating a project team to work on the implications, particularly the historic cases, to ensure that the best amount of benefit had been provided.

Information was being compiled for employers in relation to the cost cap to provide them with an overview of what was involved and also encouraging them to respond to the Government consultation.

The online self-service option was currently only be accessed by around 2% of the Fund's members and it was intended to promote this service further.

The Service Level Agreements (SLAs) had been maintained during lockdown, although some development work had not taken place as planned.

Benefit Statements for active and deferred members were issued on 2 September 2020 and XPS were now working on the pensions savings statements which would be issued by 6 October 2020.

ORDERED that the information provided was received and noted.

9 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

The External Auditor drew Members' attention to a recent review by Sir Tony Redmond into financial reporting and audit in the local government setting.

ORDERED that Members would receive a website link to a copy of the review, post-meeting.

10 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

11 **POTENTIAL LOCAL INVESTMENT**

A local investment opportunity was presented to the Committee for consideration.

ORDERED that the recommendations set out in paragraph 2.1 a) and b) in the submitted report were approved.

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 4

PENSION FUND COMMITTEE REPORT

9 DECEMBER 2020

DIRECTOR OF FINANCE – IAN WRIGHT

INVESTMENT ACTIVITY REPORT

1. PURPOSE OF THE REPORT

1.1 To inform Members how the Investment Advisors recommendations are being implemented.

1.2 To provide a detailed report on transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's Valuation.

1.3 To report on the treasury management of the Fund's cash balances.

1.4 To present to Members the latest Forward Investment Programme.

2. **RECOMMENDATION**

2.1 That Members note the report and pass any comments.

3. **FINANCIAL IMPLICATIONS**

3.1 Decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

4. **IMPLEMENTATION OF INVESTMENT ADVICE FOR THE PERIOD July - September 2020**

4.1 The Fund continues to favour growth assets over protection assets. It is considered that in the long run, Bond yields will rise, but at present and while central banks intervene in the Bond markets, through quantitative easing, yields do not meet the actuarial requirements for the Fund and should continue to be avoided at these levels unless they are held as a short term alternative to cash.

The Fund has no investments in Bonds at this time.

4.2 At the June 2018 Committee it was agreed that, a maximum level of 20% of the Fund would be held in cash – cash levels at the end of September 2020 were 10.9% . The Fund will look to use this cash to move away from its overweight position in equities and invest further in Alternatives.

4.3 Investment in direct property to continue on an opportunistic basis where the property has a good covenant, yield and lease terms.

<u>No property transactions were undertaken in this quarter.</u>

4.4 Investment in Alternatives, such as infrastructure and private equity, offer the Fund diversification from equities and bonds. They come with additional risks of being illiquid, traditionally they have costly management fees and investing capital can be a slow process. However, the Fund is considerably underweight its customised benchmark and, providing suitable investment opportunities are available, the Fund will look to increase its allocation to this asset class up to the customised benchmark level.

<u>An amount of £83.5m was invested in the quarter.</u>

5. TRANSACTION REPORT

5.1 It is a requirement that all transactions undertaken are reported to the Investment Panel. Appendix A details transactions for the period 1 July 2020 – 30 September 2020

5.2 There were net purchases of £33.2m in the period, this compares to net purchases of £22.8m in the previous reporting period.

6. TREASURY MANAGEMENT

6.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice (the Code) sets out how cash balances should be managed. The Code states that the objective of treasury management is the management of the Authority's cash flow, its borrowings and investments, in such a way as to control the associated risks and achieve a level of performance or return consistent with those risks. The security of cash balances invested is more important than the interest rate received.

6.2 Middlesbrough Council adopted the Code on its inception and further determined that the cash balances held by the Fund should be managed using the same criteria. The policy establishes a list of counterparties (banks, building societies and others to whom the Council will lend) and sets limits as to how much it will lend to each counterparty.
The counterparty list and associated limits are kept under constant review by the Strategic Director Finance, Governance and Support.

6.3 Although it is accepted that there is no such thing as a risk-free counterparty, the policy has been successful in avoiding any capital loss through default.

6.4 As at 30 September 2020, the Fund had £429.8 million invested with approved counterparties. This is a decrease of £43.1 million over the last quarter.

6.5 The attached graph (Appendix B) shows the maturity profile of cash invested. It also shows the average rate of interest obtained on the investments for each time period.

6.6 Delegated authority was given to the Strategic Director Finance, Governance and Support by the Teesside Pension Fund Committee to authorise/approve any changes made to the Treasury Management Principles (TMPs), with subsequent reporting to this committee.

7. FUND VALUATION

7.1 The Fund Valuation details all the investments of the Fund as at 30 September 2020, and is prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, is **£4,084 million.** The detailed valuation attached as Appendix C is also available on the Fund's website www.teespen.org.uk. This compares with the last reported valuation, as at 30 June 2020 of **£4,150 million**.

7.2 Please note the variance of £42.5m between the valuation provided by the Fund's custodian Northern Trust and the internal reconciliation produced, at this time, there are a number of assets that are either not recorded or are not showing the correct current valuation. The Head of Pensions Governance and Investments is working with the Custodian to resolve these issues. The amount primarily relates to three separate investments which have now been included by the custodian in the next monthly valuation (as at 31 October 2020).

7.3 A summary analysis of the valuation (attached with the above), shows the Fund's percentage weightings in the various asset classes as at 30 September 2020 compared with the Fund's customised benchmark.

8. FORWARD INVESTMENT PROGRAMME

8.1 The Forward Investment Programme provides commentary on activity in the current quarter and looks ahead for the next three to five years.

8.2 EQUITIES

The Fund is currently above its target asset allocation of 50% equities, as at the end of September 2020 the Fund's equity weighting was 74.50%.

The overweight position should be reduced over time through further investment in Alternative assets, however, as noted in 4.4 above because the investments happen over a period of years this is a slow process, as long as suitable alternative investments are available then we will look to a reduction in the overweight position of 5% per year.

Summary of equity returns for the quarter 1 July 2020 – 30 September 2020:

Asset	Fund Performance	Benchmark	Excess Return
BCPP UK	-2.78%	-2.92%	0.14%
BCPP Overseas	2.94%	2.42%	0.52%
SSGA Pacific	0.80%	0.80%	0.00%
SSGA Japan	2.44%	2.32%	-0.12%
SSGA Europe	1.52%	1.42%	-0.10%

SSGA North America	4.54%	4.49%	-0.05%

(BCPP – Border to Coast Pension Partnership – Active Internal Management)
(SSGA – State Street Global Advisers – Passive Management)

At the September 2018 Committee meeting, it was agreed to aim for a ratio of 50:50 active to passive equity investments. The ratio at the end of September 2020 was 44:56 active to passive.

8.3 **BONDS + CASH**

The Fund has a current benchmark allocation of 15%, and although it is proposed to increase the allocation to 20%, the Fund has no investments in bonds at this time, the level of cash invested is 10.9% of the Fund. Until there is clear instruction from the Committee, through its Investment Advisors, to invest in bonds this will remain the short term strategy. It is planned to reduce cash through investment into other asset classes (property, alternatives and equities) in the near term. In addition, cash is being used to supplement the gap in contribution receipts and pension payments.

8.4 **PROPERTY**

The current strategy for property is to increase direct property investments by £50 million on an opportunistic basis. The Fund purchases and sales are reported at the Committee by CBRE.

8.5 **ALTERNATIVES**

In the medium to long term, it is proposed that commitments will be made through Border to Coast. These commitments will be reviewed on an annual basis.

For both private equity and Infrastructure, it was agreed that a commitment of £100 million would be made to the Border to Coast Private Equity sub-fund in year 1 followed by £50 million commitments per year for the subsequent 4 years, subject to review.

The Fund's internal team have considered a number of investment opportunities in infrastructure and private equity funds, as at 30 September 2020 the following commitments (excluding those noted above to BCPP) have been made:

Private Equity - £305m / Infrastructure - £198m. / Other Alternatives - £75m

These committed amounts will be "called" over the investment period of the individual funds, usually 3 / 4 years.

Further investments will be considered in the near term by the internal team providing they meet the due diligence checks and investment requirements of the Fund.

CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

TEL NO.: 01642 729040

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Appendix A

Bargain Date	Buy / Sell	Stock Name	Country/Category	Sector/Country	Nominal Amount of Shares	Price	CCY	Purchase Cost / Sale Proceeds £	Book Cost of Stock Sold	Profit/ (Loss) on Sale
						(P)		(£)	(£)	(£)
13 July 2020	P	Access Capital Fund Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	457,917.39	457,917.39	0.00
13 July 2020	P	ACIF Infrastructure I LP	Infrastructure	Infrastructure	~	~	EUR	651,677.18	651,677.18	0.00
31 July 2020	P	Blackrock Global Renewable Power Fund III	Infrastructure	Infrastructure	~	~	USD	1,122,404.36	1,037,792.59	0.00
03 August 2020	P	Ancala Infrastructure Fund II LP	Infrastructure	Infrastructure	~	~	EUR	1,471,442.72	1,471,442.72	0.00
03 August 2020	S	Blackrock Global Energy and Power Infrastructure Fund III	Infrastructure	Infrastructure	~	~	USD	-121,999.85	-122,067.83	0.00
13 August 2020	P	Borders to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	137,413.72	137,413.72	0.00
13 August 2020	S	Borders to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-844,977.68	-844,977.68	0.00
18 August 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	438,408.67	438,408.67	0.00
07 September 2020	P	Access Capital Fund Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	384,298.65	384,298.65	0.00
07 September 2020	P	ACIF Infrastructure LP	Infrastructure	Infrastructure	~	~	EUR	1,320,393.66	1,320,393.66	0.00
07 September 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	1,193,056.20	1,193,056.20	0.00
07 September 2020	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-70,938.22	-70,938.22	0.00
15 September 2020	P	Access Capital Fund Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	404,709.35	404,709.35	0.00
15 September 2020	P	Foresight Energy Infrastructure Partnership	Infrastructure	Infrastructure	~	~	EUR	3,200,151.06	3,200,151.06	0.00
17 September 2020	P	Infrastructure Investments Fund (IIF) JP Morgan	Infrastructure	Infrastructure	~	~	USD	19,476,472.42	19,476,472.42	0.00
17 September 2020	P	Borders to coast infrastructue series 1B	Infrastructure	Infrastructure	~	~	USD	38,233.20	38,233.20	0.00
18 September 2020	P	ACIF Infrastructure LP	Infrastructure	Infrastructure	~	~	EUR	84,736.68	84,736.68	0.00
17 September 2020	S	Foresight Energy Infrastructure Partners	Infrastructure	Infrastructure	~	~	EUR	-26,595.94	-26,595.94	0.00
23 September 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	706,839.68	706,839.68	0.00
23 September 2020	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-21,960.45	-21,960.45	0.00
15 September 2020	S	Infrastructure Investments Fund (IIF) JP Morgan	Infrastructure	Infrastructure	~	~	USD	-240,244.61	-240,244.61	0.00
								29,761,438.19		
20 July 2020	S	MPF North America Equity Sub-Fund	Other Alternatives	North America	~	~	GBP	-2,339,798.79	-1,928,310.06	411,488.73
20 July 2020	S	MPF North America Equity Sub-Fund	Other Alternatives	North America	~	~	GBP	-22,660,201.21	-18,676,744.88	3,983,456.33
24 August 2020	S	MPF North America Equity Sub-fund	Other Alternatives	North America	~	~	GBP	-1,992.93	-1,605.61	387.32
24 August 2020	S	MPF North America Equity Sub-fund	Other Alternatives	North America	~	~	GBP	-24,998,007.07	-20,141,500.14	4,856,506.93
								-50,000,000.00		
08 July 2020	P	Hearthstone Residential Fund 1 LP	Other Alternatives	Other Alternatives	~	~	GBP	359,742.01	359,742.01	0.00
19 August 2020	P	Hearthstone Residential Fund 1 LP	Other Alternatives	Other Alternatives	~	~	GBP	473,160.66	473,160.66	0.00
16 September 2020	P	British Strategic Investment Housing Fund LP	Other Alternatives	Other Alternatives	~	~	GBP	474,577.00	474,577.00	0.00
28 September 2020	P	Darwin Leisure Property Fund Class K, Income Units	Other Alternatives	Other Alternatives	~	~	GBP	15,000,000.00	15,000,000.00	0.00
25 September 2020	S	Amedeo Air Four Plus	Other Alternatives	Other Alternatives	~	~	GBP	-1,533,333.33	-3,416,667.35	-1,883,334.02
								14,774,146.34		
03 July 2020	S	Access Capital Fund VIII Growth Buy-Out Europe	Private Equity	Private Equity	~	~	EUR	-133,809.10	-133,809.10	0.00
03 July 2020	P	Unigestion Direct II	Private Equity	Private Equity	~	~	EUR	183,066.36	183,066.36	0.00

20 July 2020	P	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	810,401.81	810,401.81	0.00
28 July 2020	P	Boarders to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	459,736.97	459,736.97	0.00
28 July 2020	P	Blackrock Private Opportunities IV	Private Equity	Private Equity	~	~	USD	1,417,548.85	1,417,548.85	0.00
07 August 2020	P	Crown Global Opportunities VII	Private Equity	Private Equity	~	~	USD	152,648.45	152,648.45	0.00
10 August 2020	P	Hermes GPE - Innovation Fund	Private Equity	Private Equity	~	~	GBP	3,040,713.01	3,123,715.37	0.00
25 August 2020	P	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	390,091.46	390,091.46	0.00
25 August 2020	P	Crown Co-Investment Opportunities II (LGT Capital)	Private Equity	Private Equity	~	~	USD	1,147,052.08	1,147,052.08	0.00
28 August 2020	P	Crown Global Opportunities VII (LGT Capital)	Private Equity	Private Equity	~	~	USD	2,507,443.97	2,507,443.97	0.00
01 September 2020	P	Borders to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	2,438,466.81	2,743,275.17	0.00
01 September 2020	P	Borders to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	711,385.92	711,385.92	0.00
02 September 2020	P	Pantheon Global Co Investment Opportunities IV	Private Equity	Private Equity	~	~	USD	937,646.51	937,646.51	0.00
07 September 2020	P	Capital Dynamics Global Secondaries V	Private Equity	Private Equity	~	~	USD	517,403.57	517,403.57	0.00
08 September 2020	P	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	560,136.92	560,136.92	0.00
18 September 2020	P	Borders to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	647,370.95	647,370.95	0.00
21 September 2020	P	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	747,849.25	747,849.25	0.00
21 September 2020	S	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	-61,629.37	-61,629.37	0.00
23 September 2020	P	Blackrock Private Opportunities Fund IV	Private Equity	Private Equity	~	~	USD	851,166.90	851,166.90	0.00
28 September 2020	P	Crown Growth Opportunities Global III	Private Equity	Private Equity	~	~	EUR	954,892.69	954,892.69	0.00
29 September 2020	P	Hermes GPE - Innovation Fund	Private Equity	Private Equity	~	~	GBP	395,498.61	395,498.61	0.00
30 September 2020	P	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	325,618.48	325,618.48	0.00
25 September 2020	P	The Model T Finance Company Limited	Private Equity	Private Equity	~	~	GBP	19,999,950.00	19,999,950.00	0.00
								39,000,651.11		
25 September 2020	S	Standard Life Investment European Property Growth Fund	Property Unit Trusts/Direct Property	Property Unit Trusts	~	~	EUR	-256,095.29	-256,095.29	0.00
								-256,095.29		
Periods July, August and September 20 (Cumulative) Total								**33,280,140.35**		
Total Profit - ***NB: Losses are shown with a ( )***										**7,368,505.29**

APPENDIX B

	Call/Notice	up to 1 Week	1-2 Weeks	up to 1 month	1-2 Months	2-3 Months	4-6 Months	7-9 Months	10-12 Months	1-2 Years	2+ Years
Average Rate	0.08%	0.14%	0.46%	0.72%	0.35%	0.33%	0.46%	0.23%	0.40%	1.50%	2.05%
Amount Invested	85,000,000	50,700,000	23,100,000	30,700,000	59,800,000	28,000,000	56,500,000	36,000,000	40,000,000	12,500,000	7,500,000
Proportion of Cash	19.78%	11.80%	5.37%	7.14%	13.91%	6.51%	13.15%	8.38%	9.31%	2.91%	1.74%

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Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Equities						
Common stock						
Australia						
Common Stock FINEXIA FINL GROUP NPV SEDOL : BMY4539	0.00	AUD	428.000	0.000	0.05600000	13.290
Common Stock YOUNG AUSTRALIAN MINES LTD SEDOL : 6741626	0.00	AUD	225,391.000	287,505.650	0.06900000	8,622.280
Total Australia	**0.00**		**225,819.000**	**287,505.650**		**8,635.570**
Europe Region						
Common Stock ACIF INFRASTRUCTURE FUND LP CUSIP : 9936FC996	0.00	EUR	17,397,809.810	15,512,913.030	1.08346480	17,098,045.380
Total Europe Region	**0.00**		**17,397,809.810**	**15,512,913.030**		**17,098,045.380**
Guernsey, Channel Islands						
Common Stock AMEDEO AIR FOUR PL RED ORD NPV SEDOL : BKY41C6	0.00	GBP	6,666,666.000	6,114,034.800	0.32500000	2,166,666.450
Common Stock NIMROD SEA ASSETS LTD ORD NPV SEDOL : BLCHC98	0.00	GBP	375,000.000	155,331.380	0.01990000	7,462.500
Total Guernsey, Channel Islands	**0.00**		**7,041,666.000**	**6,269,366.180**		**2,174,128.950**
Malta						
Common Stock BGP HOLDINGS PLC BENEFICIAL INTEREST SHSNPV SEDOL : 3A1MX0W	0.00	EUR	200,000.000	0.000	0.00000000	0.000
Total Malta	**0.00**		**200,000.000**	**0.000**		**0.000**
United Kingdom						
Common Stock AFREN ORD GBP0.01 SEDOL : B067275	0.00	GBP	1,000,000.000	1,089,449.060	0.01785000	17,850.000
Common Stock AMEDEO AIR 4 PLUS - PENDING CASH SEDOL : 5A9RL4U	0.00	GBP	3,333,333.330	4,135,965.200	0.46000000	1,533,333.330
Common Stock CARILLION ORD GBP0.50 SEDOL : 0736554	0.00	GBP	436,400.000	0.000	0.14200000	61,968.800
Common Stock NEW WORLD RESOURCE ORD EUR0.0004 A SEDOL : B42CTW6	0.00	GBP	250,000.000	1,294,544.760	0.00150000	375.000
Total United Kingdom	**0.00**		**5,019,733.330**	**6,519,959.020**		**1,613,527.130**
Total Common stock	**0.00**		**29,885,028.140**	**28,589,743.880**		**20,894,337.030**
Funds - common stock						
United Kingdom						

Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Equities						
Funds - common stock						
United Kingdom						
Funds - Common Stock BORDER TO COAST PE UK LISTED EQUITY A GBP ACC SEDOL : BDD86K3	0.00	GBP	1,234,944,019.380	1,234,830,202.100	0.88770000	1,096,259,806.000
Total United Kingdom	**0.00**		**1,234,944,019.380**	**1,234,830,202.100**		**1,096,259,806.000**
Total Funds - common stock	**0.00**		**1,234,944,019.380**	**1,234,830,202.100**		**1,096,259,806.000**
Rights/warrants						
United States						
Rights/Warrants AMERICAN INTL.GRP FRACTIONAL WTS/PROD 19/01/21 CUSIP : ACG874152	0.00	USD	29,522.000	0.000	0.00000000	0.000
Total United States	**0.00**		**29,522.000**	**0.000**		**0.000**
Total Rights/warrants	**0.00**		**29,522.000**	**0.000**		**0.000**
Unit trust equity						
Guernsey, Channel Islands						
Unit Trust Equity DARWIN BEREAVEMENT SERVICES FUND CLASS B ACCUMULATION SEDOL : 4A8UCZU	0.00	GBP	14,359,563.469	15,000,000.000	1.10030000	15,799,827.680
Total Guernsey, Channel Islands	**0.00**		**14,359,563.469**	**15,000,000.000**		**15,799,827.680**
Japan						
Unit Trust Equity SSGA MPF JAPAN EQUITY INDEX SEDOL : 001533W	0.00	GBP	129,167,537.681	239,563,978.450	2.03350000	262,662,187.870
Total Japan	**0.00**		**129,167,537.681**	**239,563,978.450**		**262,662,187.870**
Luxembourg						
Unit Trust Equity STD LIFE PROPERTY GROWTH LP SEDOL : 8A8TB3U	0.00	EUR	201.883	6,995,317.230	127,417.99000000	23,332,838.750
Total Luxembourg	**0.00**		**201.883**	**6,995,317.230**		**23,332,838.750**
Pacific Region						
Unit Trust Equity SSGA MPF PAC BASIN EX-JAPAN INDEX SEDOL : 001532W	0.00	GBP	69,150,250.340	330,819,601.580	5.34930000	369,905,434.140
Total Pacific Region	**0.00**		**69,150,250.340**	**330,819,601.580**		**369,905,434.140**
United Kingdom						

Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Equities						
Unit trust equity						
United Kingdom						
Unit Trust Equity CANDOVER INVSTMNTS PLC GBP0.25 SEDOL : 0171315	0.00	GBP	60,000.000	329,164.340	0.02500000	1,500.000
Unit Trust Equity DARWIN LEISURE DEVELOPMENT FUND ACCUMULATION UNITS - D CLASS SEDOL :	0.00	GBP	15,000,000.000	15,000,000.000	1.13730000	17,059,500.000
Unit Trust Equity LOCAL AUTHORITIES LOCAL AUTHORITIES PROPERTY SEDOL : 0521664	0.00	GBP	1,368,174.000	1,282,865.490	2.79039000	3,817,739.050
Unit Trust Equity MPF EUROPE EX UK SUB-FUND SEDOL : 4A8NH9U	0.00	GBP	61,809,313.268	392,607,423.540	6.69750000	413,967,875.610
Unit Trust Equity MPF N AMER EQTY SUB-FUND SEDOL : 1A8NH9U	0.00	GBP	58,497,578.630	535,901,264.250	11.29500000	660,730,150.630
Unit Trust Equity MPF TRANSITIONS SUB-FUND SEDOL : 7A8NJ0U	0.00	GBP	20,725.715	20,725.710	1.10370000	22,874.970
Total United Kingdom	**0.00**		**136,755,791.613**	**945,141,443.330**		**1,095,599,640.260**
Total Unit trust equity	**0.00**		**349,433,344.986**	**1,537,520,340.590**		**1,767,299,928.700**
Total Equities	**0.00**		**1,614,291,914.506**	**2,800,940,286.570**		**2,884,454,071.730**

◆ Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Real Estate						
Real estate						
United Kingdom						
Real Estate HEARTHSTONE RESIDENTIAL FUND 1 LIMITED PARTNERSHIP CUSIP : 9936FD994	0.00	GBP	8,723,116.600	8,723,116.600	0.92483600	8,067,452.260
Real Estate TEESSIDE PENSION FUND - DIRECT PROPERTY CUSIP : 9936HG995	0.00	GBP	280,289,446.350	280,289,446.350	0.95383540	267,349,996.180
Total United Kingdom	**0.00**		**289,012,562.950**	**289,012,562.950**		**275,417,448.440**
Total Real estate	**0.00**		**289,012,562.950**	**289,012,562.950**		**275,417,448.440**
Funds - real estate						
United Kingdom						
Funds - Real Estate DARWIN LEISURE PRO UNITS CLS 'C' SEDOL : B29MQ57	0.00	GBP	6,493,057.480	8,967,056.480	3.45390000	22,426,371.230
Funds - Real Estate HERMES PROPERTY UT SEDOL : 0426219	0.00	GBP	663,638.000	720,122.990	6.41000000	4,253,919.580
Funds - Real Estate LEGAL AND GENERAL MANAGED PROPERTY FUND SEDOL : 004079W	0.00	GBP	108,263.760	385,000.000	52.54370000	5,688,578.530
Funds - Real Estate ROYAL LONDON PROPERTY INVESTMENT CO SEDOL : B65M0K2	0.00	GBP	3,532,903.656	8,197,204.760	2.85850000	10,098,805.100
Funds - Real Estate THREADNEEDLE PROP PROPERTY GBP DIS SEDOL : 0508667	0.00	GBP	12,750.000	1,527,939.200	271.08000000	3,456,270.000
Total United Kingdom	**0.00**		**10,810,612.896**	**19,797,323.430**		**45,923,944.440**
Total Funds - real estate	**0.00**		**10,810,612.896**	**19,797,323.430**		**45,923,944.440**
Total Real Estate	**0.00**		**299,823,175.846**	**308,809,886.380**		**321,341,392.880**

**Generated by Northern Trust from periodic data on 28 Oct 20*

◆ Asset Detail - Customizable

Asset Subcategory

Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Venture Capital and Partnerships						
Partnerships						
Europe Region						
Partnerships ACCESS CAPITAL FUND VIII GROWTH BUY OUT EUROPE CUSIP : 993KDB999	0.00	EUR	554,880.640	498,415.990	1.00000000	503,311.270
Total Europe Region	**0.00**		**554,880.640**	**498,415.990**		**503,311.270**
Global Region						
Partnerships CAPITAL DYNAMICS GLOBAL SECONDARIES V - GBP CUSIP : 993LJT992	0.00	GBP	5,627,497.920	5,627,497.920	1.23134690	6,929,402.120
Partnerships CROWN CO INVESTMENT OPPORTUNITIES II PLCS USD CUSIP : 993BRL992	0.00	USD	18,902,130.030	14,302,776.230	1.20573500	17,629,144.480
Partnerships GLOBAL ENERGY & POWER INFRASTRUCTURE FUND III CUSIP : 993FS8991	0.00	USD	2,428,854.000	1,892,220.020	0.93692040	1,760,243.410
Partnerships PANTHEON GLOBAL CO-INVESTMENT OPPORTUNITIES IV CUSIP : 993FYQ994	0.00	USD	15,600,000.000	12,765,435.130	1.00000000	12,066,830.750
Partnerships UNIGESTION DIRECT II - EUR CUSIP : 993MTE992	0.00	EUR	200,000.000	181,437.990	1.08161000	196,217.510
Total Global Region	**0.00**		**42,758,481.950**	**34,769,367.290**		**38,581,838.270**
United Kingdom						
Partnerships ANCALA INFRASTRUCTURE FUND II SCSP CUSIP : 993FSE998	0.00	EUR	11,375,224.710	10,313,791.100	0.60340660	6,225,971.400
Partnerships BORDER TO COAST PE OVERSEAS DEV MKTS EQTY A CUSIP : 993BRK994	0.00	GBP	200,000,000.000	200,000,000.000	1.19605480	239,210,960.000
Partnerships CAPITAL DYNAMICS CLEAN ENERGY INFRASTRUCTURE VIII (CO INVESTMENT) LP CUSIP :	0.00	GBP	4,032,134.920	4,032,134.920	1.09127720	4,400,176.910
Partnerships CAPITAL DYNAMICS CLEAN ENERGY AND INFRASTRUCTURE VIII SCSp CUSIP : 993FP0991	0.00	GBP	8,064,269.830	8,064,269.830	1.03231720	8,324,884.450
Partnerships GRESHAM HOUSE BSI HOUSING FUND LP CUSIP : 993FP6998	0.00	GBP	5,893,234.940	5,893,234.940	1.08540790	6,396,563.760
Partnerships GRESHAM HOUSE BSI INFRASTRUCTURE LP CUSIP : 993FP5990	0.00	GBP	12,959,852.980	12,959,852.980	0.93918080	12,171,645.090
Partnerships HERMES GPE INNOVATION FUND CUSIP : 993NEB992	0.00	GBP	3,123,715.370	3,123,715.370	1.00000000	3,123,715.370
Partnerships INNISFREE PFI CONTINUATION FUND CUSIP : 9936FE992	0.00	GBP	9,355,914.000	9,355,914.000	1.03749760	9,706,738.320
Partnerships INNISFREE PFI SECONDARY FUND 2 CUSIP : 9936FF999	0.00	GBP	7,669,641.000	7,669,641.000	1.07334600	8,232,178.490
Total United Kingdom	**0.00**		**262,473,987.750**	**261,412,554.140**		**297,792,833.790**
United States						

◆ Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Venture Capital and Partnerships						
Partnerships						
United States						
Partnerships BLACKROCK GLOBAL ENERGY AND POWER INFRASTRUCTURE FUND III CUSIP :	0.00	USD	2,428,854.000	1,930,342.940	0.93692040	1,760,243.410
Partnerships BLACKROCK PRIVATE OPPORTUNITIES FUND IV TOTAL CUSIP : 993FYK997	0.00	USD	2,234,270.000	1,740,627.650	1.00000000	1,728,240.890
Partnerships BORDER TO COAST INFRASTRUCTURE SERIES 1 CUSIP : 993FT4999	0.00	USD	15,437,739.430	12,204,824.150	0.80644510	9,630,018.840
Partnerships BORDER TO COAST INFRASTRUCTURE SERIES 1B CUSIP : 993KGJ999	0.00	USD	75,244.540	60,598.000	0.00001320	0.770
Partnerships BORDER TO COAST PRIVATE EQUITY SERIES 1 CUSIP : 993FYP996	0.00	USD	11,060,075.540	8,676,314.790	0.83109440	7,110,122.320
Partnerships CROWN GLOBAL OPPORTUNITIES VII CUSIP : 993FYN991	0.00	USD	9,480,000.000	7,354,473.320	1.02090770	7,486,234.720
Partnerships CROWN GROWTH GLOBAL OPPORTUNITIES III CUSIP : 993FYM993	0.00	USD	9,020,565.890	6,759,763.120	0.94684330	6,606,638.090
Partnerships FORESIGHT ENERGY INFRASTRUCTURE PARTNERS CUSIP : 993FS9999	0.00	USD	337,491.590	271,770.480	3.45032300	900,723.170
Partnerships UNIGESTION SA CUSIP : 993FYL995	0.00	USD	1,891,755.140	1,468,188.380	0.74007720	1,082,955.400
Total United States	**0.00**		**51,965,996.130**	**40,466,902.830**		**36,305,177.610**
Total Partnerships	**0.00**		**357,753,346.470**	**337,147,240.250**		**373,183,160.940**
Total Venture Capital and Partnerships	**0.00**		**357,753,346.470**	**337,147,240.250**		**373,183,160.940**

**Generated by Northern Trust from periodic data on 28 Oct 20*

Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Hedge Fund						
Hedge equity						
Global Region						
Hedge Equity						
IIF UK I LP CUSIP : 993FP3995	0.00	USD	25,000,000.000	18,871,485.190	1.00000000	19,337,869.790
Total Global Region	**0.00**		**25,000,000.000**	**18,871,485.190**		**19,337,869.790**
Total Hedge equity	**0.00**		**25,000,000.000**	**18,871,485.190**		**19,337,869.790**
Total Hedge Fund	**0.00**		**25,000,000.000**	**18,871,485.190**		**19,337,869.790**

◆ Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
All Other					
Recoverable taxes					
Recoverable taxes GBP - British pound sterling	42,254.18	0.000	0.000	0.00000000	0.000
Recoverable taxes DKK - Danish krone	309,282.15	0.000	0.000	0.00000000	0.000
Recoverable taxes EUR - Euro	1,167,989.86	0.000	0.000	0.00000000	0.000
Recoverable taxes CHF - Swiss franc	2,271,514.59	0.000	0.000	0.00000000	0.000
Total	**3,791,040.78**	**0.000**	**0.000**		**0.000**
Total Recoverable taxes	**3,791,040.78**	**0.000**	**0.000**		**0.000**
Total All Other	**3,791,040.78**	**0.000**	**0.000**		**0.000**

Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
Cash and Cash Equivalents					
Cash					
Cash GBP - British pound sterling	0.00	667.660	667.660	1.00000000	667.660
Total	**0.00**	**667.660**	**667.660**		**667.660**
Total Cash	**0.00**	**667.660**	**667.660**		**667.660**
Invested cash					
Invested cash USD - United States dollar	0.00	130,681.800	130,681.800	1.00000000	130,681.800
Total	**0.00**	**130,681.800**	**130,681.800**		**130,681.800**
Total Invested cash	**0.00**	**130,681.800**	**130,681.800**		**130,681.800**
Cash (externally held)					
Cash (externally held) GBP - British pound sterling	0.00	440,464,956.210	440,464,956.210	1.00000000	440,464,956.210
Total	**0.00**	**440,464,956.210**	**440,464,956.210**		**440,464,956.210**
Total Cash (externally held)	**0.00**	**440,464,956.210**	**440,464,956.210**		**440,464,956.210**
Funds - short term investment					
Funds - Short Term Investment GBP - British pound sterling	16.40	3,017,000.000	3,017,000.000	1.00000000	3,017,000.000
Total	**16.40**	**3,017,000.000**	**3,017,000.000**		**3,017,000.000**
Total Funds - short term investment	**16.40**	**3,017,000.000**	**3,017,000.000**		**3,017,000.000**
Total Cash and Cash Equivalents	**16.40**	**443,613,305.670**	**443,613,305.670**		**443,613,305.670**
Report Total:	**3,791,057.18**	**2,740,481,742.492**	**3,909,382,204.060**		**4,041,929,801.010**

◆ Asset Detail - Customizable

Asset Subcategory						
Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value

Asset	Book Cost	Price	Value	% of Fund
Equities				
UK Equities				
BORDER TO COAST PE UK LISTED EQUITY A GBP ACC	1,234,944,019.38	0.89	1,096,259,806.00	**26.84%**
AFREN ORD GBP0.01	1,000,000.00	0.02	17,850.00	**0.00%**
CARILLION ORD GBP0.50	436,400.00	0.14	61,968.80	**0.00%**
CANDOVER INVSTMNTS PLC GBP0.25	60,000.00	0.03	1,500.00	**0.00%**
NEW WORLD RESOURCE ORD EUR0.0004 A	250,000.00	0.00	375.00	**0.00%**
Total UK Equities			**1,096,341,499.80**	**26.84%**
Overseas Equties				
YOUNG AUSTRALIAN MINES LTD	225,391.00	0.07	8,622.28	**0.00%**
MEJORITY CAPITAL NPV (FINEXIA FINL GROUP)	428.00	0.06	13.29	**0.00%**
BGP HOLDINGS PLC BENEFICIAL INTEREST SHSNPV	200,000.00	0.00	0.00	**0.00%**
AMERICAN INTL.GRP FRACTIONAL WTS/PROD 19/01/21	29,522.00	0.00	0.00	**0.00%**
SSGA MPF PAC BASIN EX-JAPAN INDEX	69,150,250.34	5.35	369,905,434.14	**9.06%**
SSGA MPF JAPAN EQUITY INDEX	129,167,537.68	2.03	262,662,187.87	**6.43%**
MPF EUROPE EX UK SUB-FUND	61,809,313.27	6.70	413,967,875.61	**10.14%**
MPF TRANSITIONS SUB-FUND	20,725.72	1.10	22,874.97	**0.00%**
MPF N AMER EQTY SUB-FUND	58,497,578.63	11.30	660,730,150.63	**16.18%**
BORDER TO COAST PE OVERSEAS DEV MKTS EQTY A	200,000,000.00	1.20	239,210,960.00	**5.86%**
Total Overseas Equities			**1,946,508,118.79**	**47.66%**
Total Equities			**3,042,849,618.59**	**74.50%**
Alternatives				
Private Equities				
CROWN CO INVESTMENT OPPORTUNITIES II PLCS USD	18,902,130.03	1.21	17,629,144.48	**0.43%**
UNIGESTION SA	1,891,755.14	0.74	1,082,955.40	**0.03%**
PANTHEON GLOBAL CO-INVESTMENT OPPORTUNITIES IV	15,600,000.00	1.00	12,066,830.75	**0.30%**
CROWN GLOBAL OPPORTUNITIES VII	9,480,000.00	1.02	7,486,234.72	**0.18%**
CROWN GROWTH GLOBAL OPPORTUNITIES III	9,020,565.89	0.95	6,606,638.09	**0.16%**
BLACKROCK PRIVATE OPPORTUNITIES FUND IV TOTAL	2,234,270.00	1.00	1,728,240.89	**0.04%**
BORDER TO COAST PRIVATE EQUITY SERIES 1	11,060,075.54	0.83	7,110,122.32	**0.17%**

UNIGESTION DIRECT II	200,000.00	1.08	196,217.51	**0.00%**
ACCESS CAPITAL FUND VIII GROWTH BUY OUT EUROPE	554,880.64	1.00	503,311.27	**0.01%**
HERMES GPE INNOVATION FUND	3,123,715.37	1.00	3,123,715.37	**0.08%**
CAPITAL DYNAMICS GLOBAL SECONDARIES V	5,627,497.92	1.23	6,929,402.12	**0.17%**
CAPITAL DYNAMICS LGPS COLLECTIVE PE FOR POOLS 18/19	1,400,000.00	1.00	1,400,000.00	**0.03%**
CROWN SECONDARIES SPECIAL OPPORTUNITIES II	5,050,000.00	1.00	4,918,111.00	**0.12%**
THE MODEL T FINANCE COMPANY	19,999,950.00	1.00	19,999,950.00	**0.49%**
Total Private Equities			**90,780,873.92**	**2.22%**
Infrastructure				
ACIF INFRASTRUCTURE FUND LP	17,397,809.81	1.08	17,098,045.38	**0.42%**
INNISFREE PFI CONTINUATION FUND	9,355,914.00	1.04	9,706,738.32	**0.24%**
INNISFREE PFI SECONDARY FUND 2	7,669,641.00	1.07	8,232,178.49	**0.20%**
BORDER TO COAST INFRASTRUCTURE SERIES 1A	15,437,739.43	0.81	9,630,018.84	**0.24%**
BORDER TO COAST INFRASTRUCTURE SERIES 1B	119,736.00	1.00	96,814.75	**0.00%**
BLACKROCK GLOBAL ENERGY & POWER INFRASTRUCTURE FUND III	2,428,854.00	0.94	3,520,486.82	**0.09%**
CAPITAL DYNAMICS CLEAN ENERGY INFRASTRUCTURE VIII (CO INVESTMENT) LP	4,032,134.92	1.09	4,400,176.91	**0.11%**
CAPITAL DYNAMICS CLEAN ENERGY AND INFRASTRUCTURE VIII SCSp	8,064,269.83	1.03	8,324,884.45	**0.20%**
IIF UK I LP	25,000,000.00	1.00	19,337,869.79	**0.47%**
ANCALA INFRASTRUCTURE FUND II SCSP	11,375,224.71	0.60	6,225,971.40	**0.15%**
FORESIGHT ENERGY INFRASTRUCTURE PARTNERS	337,491.59	3.45	900,723.17	**0.02%**
GRESHAM HOUSE BSI INFRASTRUCTURE LP	12,959,852.98	0.94	12,171,645.09	**0.30%**
BLACKROCK GLOBAL RENEWABLE POWER FUND III	1,122,404.36	1.00	1,122,404.36	**0.03%**
Total Infrastructure			**100,767,957.77**	**2.47%**
Other Alternatives				
AMEDEO AIR FOUR PLUS LTD	10,000,000.00	0.33	3,699,999.78	**0.09%**
DARWIN LEISURE PRO UNITS CLS 'C'	6,493,057.48	3.45	22,426,371.23	**0.55%**
DARWIN BEREAVEMENT SERVICES FUND CLASS B ACCUMULATION	14,359,563.47	1.10	15,799,827.68	**0.39%**
DARWIN LEISURE DEVELOPMENT FUND ACCUMULATION UNITS - D CLASS	15,000,000.00	1.14	17,059,500.00	**0.42%**
HEARTHSTONE RESIDENTIAL FUND 1 LIMITED PARTNERSHIP	8,723,116.60	0.92	8,067,452.26	**0.20%**
NIMROD SEA ASSETS LTD ORD NPV	375,000.00	0.02	7,462.50	**0.00%**
GRESHAM HOUSE BSI HOUSING LP	593,234.94	1.09	6,396,563.76	**0.16%**
DARWIN LEISURE PROPERTY FUND K - INCOME UNITS	15,000,000.00	1.00	15,000,000.00	**0.37%**
Total Other Alternatives			**88,457,177.21**	**2.17%**
Total Alternatives			**280,006,008.90**	**6.86%**

Property

Direct Property				
TEESSIDE PENSION FUND - DIRECT PROPERTY	280,289,446.35	0.95	267,349,996.18	**6.55%**
Total Direct Property			**267,349,996.18**	**6.55%**
Property Unit Trust				
STD LIFE PROPERTY GROWTH LP	201.88	127,629.61	23,332,838.75	**0.57%**
ROYAL LONDON PROPERTY INVESTMENT CO	3,532,903.66	2.86	10,098,805.10	**0.25%**
LOCAL AUTHORITIES LOCAL AUTHORITIES PROPERTY	1,368,174.00	2.79	3,817,739.05	**0.09%**
HERMES PROPERTY UT	663,638.00	6.41	4,253,919.58	**0.10%**
THREADNEEDLE PROP PROPERTY GBP DIS	12,750.00	271.08	3,456,270.00	**0.08%**
LEGAL AND GENERAL MANAGED PROPERTY FUND	108,263.76	52.54	5,688,578.53	**0.14%**
Total Property Unit Trust			**50,648,151.01**	**1.24%**
Total Property			**317,998,147.19**	**7.79%**

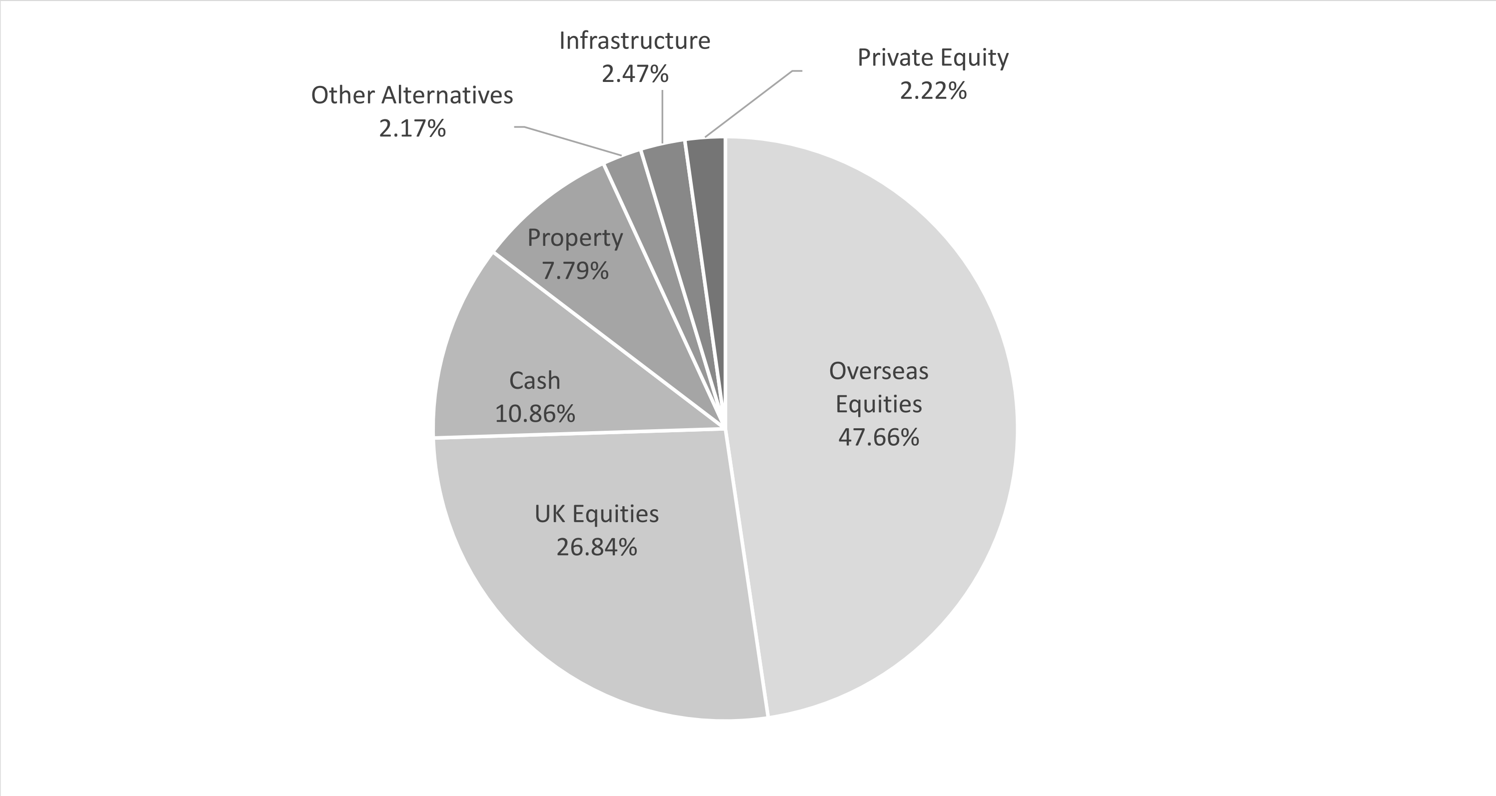
Cash

Custodian Cash	667.66	1.00	667.66	**0.00%**
	3,017,000.00	1.00	3,017,000.00	**0.07%**
	130,681.80	1.00	130,681.80	**0.00%**
			3,148,349.46	**0.08%**
Invested Cash	440,464,956.21	1.00	**440,464,956.21**	**10.78%**
Total Cash			**443,613,305.67**	**10.86%**

Total Fund Value - 30th September 2020	**4,084,467,080.35**	**100.00%**

Asset Allocation Summary		Actual	Benchmark
Overseas Equities	1,946,508,118.79	47.66%	28%
UK Equities	1,096,341,499.80	26.84%	22%
Cash	443,613,305.67	10.86%	20% (Bonds/Cash)
Property	317,998,147.19	7.79%	15% (Property/Property Debt)
Other Alternatives	88,457,177.21	2.17%	5%
Infrastructure	100,767,957.77	2.47%	5%

Private Equity	90,780,873.92	2.22%	5%
	4,084,467,080.35	100.00%	100%



Agenda Item 5

Teesside Pension Fund
Provisional Audit Results Report
Year ended 31 March 2020

November 2020

Agenda Item 5

EY
Building a better working world

Private and Confidential

20 November 2020

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Teesside Pension Fund for 2019/20.

We have substantially completed our audit of Teesside Pension Fund ('the Fund') for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements. Our audit opinion will include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty'. This matters does not constitute a qualification of our audit opinion.

This report is intended solely for the use of the Corporate Affairs and Audit Committee, the Pensions Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Corporate Affairs and Audit Committee meeting on 26 November 2020, and the Pensions Committee meeting on 9 December 2020.

Yours faithfully

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report tabled at the 5 March 2020 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our Audit Planning Report Addendum tabled at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan, as updated to respond to the risks of Covid-19.

Materiality

In our Audit Planning Report Addendum, we communicated that our audit procedures would be performed using a materiality of £37.4m, with performance materiality, at 75% of overall materiality, of £28.0m, and a threshold for reporting misstatements of £1.9m. We have considered whether any change to our materiality is required in light of observations during the course of our audit. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report Addendum remain appropriate.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 7.

Status of the audit

We have completed a significant proportion of our audit of Teesside Pension Fund's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report and Audit Planning Report Addendum. Subject to satisfactory completion of the outstanding items set out in Appendix D, we expect to issue an unqualified opinion on the Fund's financial statements. However until work is complete, further amendments may arise. We will provide a verbal update on these matters at the Committee meeting.

We are proposing that our audit opinion will emphasise the following with an Emphasis of Matter paragraph:

- **Valuation of property-related investments** - We draw attention to Notes 5 and 13 of the financial statements, which describe the valuation uncertainty the Fund is facing as a result of Covid-19 in relation to property-related investments. Our opinion is not modified in respect of this matter.

Executive Summary

Audit differences

We identified £6.9m of unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. We have also identified audit differences with an aggregated impact of £33.1m which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Planning Report and Audit Planning Report Addendum identified key areas of focus for our audit of Teesside Pension Fund's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue;
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Corporate Affairs and Audit Committee.

Control observations

During the audit we identified one control observation, relating to management's review and challenge of information provided by the Fund's custodian, and made an improvement recommendation in relation to management's financial processes and controls. Further details are set out in Section 6. We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Other reporting issues

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. It was agreed with management that the Pension Fund Annual Report would be provided to us once the Pension Fund financial statements were finalised, therefore we have not yet received this report. We will provide an update on the consistency of the Pension Fund Annual Report with the audited Pension Fund financial statements, including our opinion thereon, to a future meeting of the Corporate Affairs and Audit Committee.

Independence

Please refer to Section 7 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks in our planning.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- We identified fraud risks during the planning stages of our audit;
- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We determined an appropriate strategy to address those identified risks of fraud; and
- We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside Teesside Pension Fund's normal course of business.

Subject to conclusion of the outstanding matters detailed in Appendix D, we are content that the financial statements are not materially misstated as a result of fraud or error.

Significant risk

Valuation of unquoted pooled investment vehicles

What is the risk?

The Fund's investments include unquoted pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.

We identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

Additional considerations for Covid-19

Unquoted assets are either level 2 or level 3 on the fair value hierarchy, which means quoted market prices are not available and valuation is reliant on the use of inputs derived from observable market data (level 2) or are not based on observable market data (level 3). The approach usually taken to value these assets, which sometimes relies on adjusting valuations or other observable information as at 31 December, has had to change because of the market volatility brought about by Covid-19 in the final quarter of 2019/20. We will need to consider the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of Covid-19 on investment values has been properly accounted for in the financial statements.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation of complex pooled investment vehicles were free from material misstatement, including due to the impacts on investment values of Covid-19.

What did we do?

- We documented and walked through the design and implementation of the controls over the valuation process;
- We obtained third party confirmations of the valuation of unquoted pooled investments at the reporting date from the investment managers. We also cross-checked the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian;
- We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- We compared the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigated any unusual variances;
- We agreed a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence;
- We reviewed the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.

Significant risk

Valuation of unquoted pooled investment vehicles (continued)

What did we do (continued)?

- We enquired of management as to what steps they have taken to ensure the accuracy of valuations provided by investment managers accurately reflect the impact of Covid-19 on investments; and
- We have considered whether the planned audit procedures, detailed above, provided sufficient audit assurance over the impact of Covid-19 on investments. We opted to perform the following further procedures, in addition to those set out in our plan:
- We requested management obtain updated valuations as at 31 March 2020 from investment managers, to capture any subsequent revisions to valuations made as more information about market conditions at the reporting date emerged, and compared these valuations to those used in the financial statements.

What are our conclusions?

We identified a number of differences between the amounts included within the financial statements and the confirmations provided by investment managers and the Fund's custodian, including:

- An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;
- Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end;
- An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;
- A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- A number of smaller variances which have a net impact of understating assets by £7.0m.

We have considered the impact of the errors identified in our assessment of the control environment, further details of our observations and recommendations are provided in section 6.

Our procedures covered 100% of the population.

Review of the updated valuations obtained from investment managers did not identify any significant changes in valuations which required reflecting in the financial statements.

Management have agreed to adjust for some of the identified misstatements detailed above which amounts to a net £24.4m. The net impact of identified misstatements which management have not agreed to adjust amounts to £15.5m. Further details of which are provided in section 4.

Significant risk

Valuation of directly held property

What is the risk?

The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.

Additional considerations for Covid-19

In-line with guidance issued by the Royal Institution of Chartered Surveyors (RICS), the Fund's property valuer provided their valuation of the Fund's directly held property at 31 March 2020 on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by the property valuers in relation to the valuation of directly held property, including assumptions about the impact of Covid-19 on the property market, were free from material misstatement.

What did we do?

- We documented and walked through the design and implementation of the controls over the valuation process;
- We obtained the valuation report from the external valuer (Cushman and Wakefield) and reconciled the valuations provided to those utilised within the financial statements;
- We assessed the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts;
- We engage EY Real Estate experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations; and
- We reviewed the financial statement disclosures to ensure that appropriate disclosure has been made in the accounts concerning the material valuation uncertainty.

What are our conclusions?

Our review of the valuations of the Fund's directly held property has not identified any misstatements.

We do however note that of the sample of 8 properties we requested our EY Real Estate experts to review, 4 were valued towards the upper end of the expected range of valuations and 4 were in the middle of the expected range. We would therefore consider the Fund's valuations, whilst reasonable, to be towards the higher end of expectations.

Properties valued towards the upper end of the expected range were predominantly retail properties, where the impact of Covid-19 on valuations has been greatest.

The valuations of property assets at 31 March 2020 were provided to management by their valuer on the basis of a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market. The draft financial statements presented for audit did not include disclosure of this fact, however following audit challenge this will be disclosed as a critical judgement, sensitivity and accounting estimate in the final statements.

03 Audit Report

Audit report

Audit report

- For 2019/20, the wording of our audit report is subject to an internal consultation process. We will communicate the details of the report once our consultation process has been concluded.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £33.1m, which have been corrected by management that were identified during the course of our audit:

- An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;
- An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;
- Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end.

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Summary of unadjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £6.9m, which have been identified during the course of our audit but not corrected for within the financial statements:

- A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- An understatement of £7.0m as the aggregated net impact of a number of smaller differences identified between the financial statements and investment manager confirmations, excluding those differences separately detailed above. The majority of these differences are timing differences whereby the financial statements do not reflect purchases or sales occurring prior to the year end.

We ask that these differences be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation.

Source of differences

We have raised a recommendation to address the common source of some of these misstatements within Section 6 of our report.

Audit Differences

Comments on disclosure notes

The following matters relating to the disclosures within the financial statements have been identified during the course of our audit and corrected by management:

- **Material valuation uncertainty** – the draft financial statement did not include reference to the fact directly held property valuations have been prepared on the basis of a material valuation uncertainty;
- **Going concern** – the draft financial statements did not specifically state that the financial statements had been prepared on a going concern basis, nor did they include management's assessment as to why the adoption of the going concern basis is appropriate;
- **Outstanding commitments** – the draft financial statements did not include disclosure of the Fund's outstanding commitments to investment managers (note this was inserted prior to inclusion in the draft Middlesbrough Council Statement of Accounts);
- **Geographical Analysis** – we identified misclassifications within the disclosure of the geographical analysis of the Fund's assets totalling £33.8m;
- **Financial instruments –** the draft financial statements incorrectly identified directly-held property assets as financial instruments; and
- **Miscellaneous** – we made a number of recommendations to improve the disclosures within the financial statements, including several instances of internal inconsistency.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

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We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have nothing to report in relation to this.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified one significant deficiency in the design or operation of an internal control which led to a material misstatement of the financial statements, as reported in sections 2 and 4. We have made a recommendation to address this deficiency on the next page.

We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	Management review of information provided by the Fund's custodian	Rating	

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Observation and recommendation

Management rely on information provided by the Fund's custodian when preparing the financial statements. Our audit procedures identified a number of issues with this information, including:

- Differences between the asset valuations recorded by the custodian and the asset valuations provided by investment managers, most notably a £22.5m difference on one large investment;
- The double-counting of a £19.6m investment by the custodian, whereby both a disposed of investment and its replacements were included in the year-end valuation report. The splitting of the investment occurred in September 2019; and
- Timing differences, such that asset valuations provided by the custodian as at 31 March 2020 did not reflect purchases and sales which took place prior to 31 March 2020, with a net impact of understating assets by £16.0m.

Whilst the net impact of the above was not material, the absolute value of identified misstatements was material. The aggregate impact of all misstatements identified during the audit, including the above, was also material. We therefore consider there to be a risk of material misstatement arising from errors in the information provided by the Fund's custodian remaining uncorrected and being utilised in the production of the financial statements.

We recommend that management review the processes in place for assuring the information provided by the Fund's custodian is accurate and complete. Where timing differences are known to exist, management should ensure that they have processes in place to determine the impact on the financial statements and, where appropriate, the information provided by the custodian should be adjusted prior to inclusion within the financial statements.

Management comment

We have been working with the Fund's custodian to ensure the processes for updating manager valuation information (including the on-boarding of new managers or investments) are robust. We are also closely monitoring the figures provided by the custodian to ensure we keep track of any payments to or from managers that may not be reflected in the custodian's figures (typically, because of timing issues), and will ensure appropriate adjustments are made to quarterly and year-end valuations.

07 Independence

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken audit work, in the form of IAS 19 procedures on behalf of the auditors of some participating employers of the Fund.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee (note 1, 2)	TBC	21,972
IAS 19 Procedures – Code (note 3)	6,000	-
Total Audit Fees	**TBC**	**21,972**
IAS 19 Procedures – CQC (note 3)	2,000	2,000
Total Fees for Non-Audit Services	**2,000**	**2,000**
Total Fees	**TBC**	**23,972**

Note 1 – Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We outlined to management that we believe the fee for the Pension Fund should be set at £55,574. Management have not agreed to the proposed increase and we have therefore asked the PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £21,972.

Note 2 – Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. These additional procedures will impact upon our final fee, which we will discuss with management following completion of our audit.

Note 3 – IAS 19 Procedures

For 2019/20 a fee will be charged for the provision of IAS 19 assurances to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. Such additional fees are permissible under the PSAA contract and will represent a scale fee variation requiring PSAA approval. The fee for the provision of IAS 19 assurances to the auditor of the Care Quality Commission (CQC), which is not subject to the NAO Code of Audit Practice, is covered by a separate engagement agreement between ourselves and the Fund and does not require approval by PSAA. Management may opt to recharge such fees to the relevant member bodies.

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees;
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
- Permitted services required by law or regulation will not be subject to the 70% fee cap;
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020): https://www.ey.com/en_uk/who-we-are/transparency-report-2020

08 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date;
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement. This is the same as our approach in prior years.

Appendix B

Summary of communications

Date	Nature	Summary
22 January 2020	Meeting	The audit team met with Veritau, recently appointed as the internal auditors of Middlesbrough Council (as the administering authority), to understand the scope of their planned work in respect of the Pension Fund.
4 February 2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
5 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
11 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Pensions Committee.
17 June 2020	Meeting	The audit team attended the meeting of the Pensions Committee, where amongst other agenda items management presented a paper on the impacts of Covid-19 on the Fund's investments.
22 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Pensions Committee.
30 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
14 August 2020	Meeting	The audit team met with management to discuss the status of our audit, significant audit findings to date and arrangements for completion of our audit.
26 November 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.
9 December 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Pensions Committee.

In addition to the above specific meetings and reports, the audit team met with the management team multiple times throughout the audit to discuss the progress of the audit and audit findings. In line with government guidance and EY policy, meetings since the start of the Covid-19 pandemic have been held remotely.

Appendix C

Required communications with the Corporate Affairs and Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Corporate Affairs and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process.	Audit Results Report (this report)

Required communications with the Corporate Affairs and Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty; ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▸ The adequacy of related disclosures in the financial statements	Audit Results Report (this report)
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▸ The effect of uncorrected misstatements related to prior periods; ▸ A request that any uncorrected misstatement be corrected; ▸ Corrected misstatements that are significant; and ▸ Material misstatements corrected by management	Audit Results Report (this report)
Fraud	▸ Enquiries of the Corporate Affairs and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▸ A discussion of any other matters related to fraud	Audit Results Report (this report)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management; ▸ Inappropriate authorisation and approval of transactions; ▸ Disagreement over disclosures; ▸ Non-compliance with laws and regulations; and ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats; ▸ Safeguards adopted and their effectiveness; ▸ An overall assessment of threats and safeguards; and ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report; and Audit Results Report (this report)
External confirmations	▸ Management's refusal for us to request confirmations; and ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report (this report)
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▸ Enquiry of the Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Audit Committee may be aware of.	Audit Results Report (this report)
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report (this report)

Required communications with the Corporate Affairs and Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed; ▸ Breakdown of fee information at the completion of the audit; and ▸ Any non-audit work	Audit Planning Report; and Audit Results Report (this report)

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Internal review	We are still completing our internal review procedures to ensure the quality of our work.	EY
Internal consultation on the final wording of our audit opinion	Given the exceptional circumstances this year, we have introduced additional internal consultation processes in respect of our audit opinion which we need to conclude. This consultation process is performed as one for the Pension Fund and the administering authority. There are outstanding matters on our audit of the administering authority which mean we are not yet in a position to commence this consultation.	Management (of administering authority) / EY
Final statements	We have only recently received updated financial statements from management. We need to review these to ensure that agreed changes have been implemented as expected.	EY
Management Letter	Receipt of signed management representation letter.	Management / Corporate Affairs and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	Management / EY

Management representation letter

We include below a copy the management representation letter which we request is printed on the Authority's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

Dear Sirs,

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund ("the Fund") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.

6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [management to insert rationale].

Management representation letter (continued)

Management Representation Letter (continued)

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B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties;
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
- Involving management, or employees who have significant roles in internal control, or others; or
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.

4. We have made available to you all minutes of the Committee meetings of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2019/20 to the most recent meeting on 9 December 2020.

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

Management representation letter (continued)

Management Representation Letter (continued)

8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

9. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information disclosed on pages xxx to xxx and pages xxx to xxx of the Middlesbrough Council Statement of Accounts 2019/20 [page numbers to be confirmed in final version].

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

Management representation letter (continued)

Management Representation Letter (continued)

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 and dated 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund's directly-held property assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates – Property valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.
2. We confirm that the significant assumptions used in making the valuation of directly held property estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate and reflect the expectations of the Fund.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the Covid-19 pandemic on valuations, and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the Covid-19 pandemic.

Yours faithfully,

____

Tony Parkinson, Chief Executive

____

Ian Wright, Finance Director

____

Charlotte Benjamin, Monitoring Officer

Schedule of unadjusted audit differences

The following relates to the overstatement of investment assets in the financial statements:

	Dr (£'000)	Cr (£'000)
Change in market value	6,957	
Investment assets		6,957

Appendix F

Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Teesside Pension Fund
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▸ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	▸ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▸ Further updates will be provided when possible.
Independence	▸ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	▸ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. ▸ We do not currently provide any non-audit services to you.

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 6

PENSION FUND COMMITTEE REPORT

9 DECEMBER 2020

DIRECTOR OF FINANCE – IAN WRIGHT

EXTERNAL MANAGERS' REPORTS

1. PURPOSE OF THE REPORT

1.1 To provide Members with:

- Quarterly investment reports in respect of funds invested externally with Border to Coast Pensions Partnership Limited ('Border to Coast') and with State Street Global Advisers ('State Street') and;
- Details of a recent change to the benchmarks State Street is tracking within the four passive overseas funds the Fund is invested in, the rationale behind that change, and a comparison with the approach taken by Border to Coast.

2. **RECOMMENDATION**

2.1 That Members note the report and pass any comments.

3. **FINANCIAL IMPLICATIONS**

3.1 Any decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

4. **PERFORMANCE**

4.1 As at 30 September 2020 the Fund had investments in the following two Border to Coast listed equity sub-funds:

- The Border to Coast UK Listed Equity Fund, which has an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index.
- The Border to Coast Overseas Developed Markets Equity Fund, which has an active overseas equity portfolio aiming to produce total returns of at least 1% above the total return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).

For both sub-funds the return target is an annual amount, expected to be delivered over rolling 3 year periods, before calculation of the management fee.

The Fund also has investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. Total commitments of £50 million were made to each of these sub-funds for 2020/21, in addition to £100 million commitments to each sub-fund in 2019/20. Up to 30 September 2020 only a small proportion of this total had been invested. These investments are not reflected within the Border to Coast report (at Appendix A).

4.2 The Border to Coast report shows the market value of the portfolio as at 30 September 2020 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast has also provided additional information within an appendix to that report in relation to the Overseas Developed Markets Equity Fund, giving a breakdown of key drivers of and detractors from performance in relation to each of its four regional elements. Market background information and an update of some news items related to Border to Coast are also included.

4.3 State Street has a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report (at Appendix B) shows the market value of the State Street passive equity portfolio and the proportions invested in each region as at 30 September 2020. Performance figures are also shown in the report over a number of time periods and from inception – the date the Fund started investing passively with State Street in that region: for Japan and Asia Pacific ex Japan the inception date is 1 June 2001, as the Fund has been investing a small proportion of its assets in these regions passively for since then; for North America and Europe ex UK the inception date was in September 2018 so performance figures only cover just over two years as this represents a comparatively new investment for the Fund. The nature of passive investment – where an index is closely tracked in an automated or semi-automated way – means deviation from the index should always be low.

4.4 State Street continues to include additional information with their report this quarter, giving details of how the portfolio compares to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues. As the State Street investments are passive and closely track the appropriate regional equity indices, the portfolio's rating in these terms closely matches the benchmark indices ratings.

4.5 Members will be aware that the Fund holds equity investments over the long term, and performance can only realistic be judged over a significantly longer time-frame than a single quarter. However, it is important to monitor investment performance regularly and to understand the reasons behind any under of over performance against benchmarks and targets.

5. **CHANGES TO STATE STREET'S BENCHMARKS – EXCLUSION OF CERTAIN COMPANIES**

5.1 State Street has advised investors in a number of its passively-invested funds, including the four State Street equity funds the Fund invests in, that is has decided to exclude UN Global Compact violators and controversial weapons companies from those funds and the indices they track.

5.2 The Ten Principles of the United Nations Global Compact (derived from the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption) are as follows (shown against four sub-categories):

<u>Human Rights</u>

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

<u>Labour</u>

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

<u>Environment</u>

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

<u>Anti-Corruption</u>

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

5.3 State Street has produced a Q&A document (included at Appendix C) setting out more detail of the potential investment impact of the change to benchmarks. For the four State Street funds the Fund is invested in the combined effect of applying this change to benchmarks to exclude around 3.6% by value of the companies / securities across the regions (as at 30 June 2020) as shown in the following table:

Fund Name	**Number of companies / securities excluded**	**% of Parent Index Excluded**	**Number of companies / securities in fund (after exclusions)**
FTSE Developed Europe ex UK ex Controversies ex CW Index	7	3.93	646
FTSE North America ex Controversies ex CW Index	18	4.26	451
FTSE Japan ex Controversies ex CW Index	3	0.56	504
FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index	9	4.07	373
Combined Fund State Street investments	37	3.59	1,974

5.4 Appendix C also shows a backward-looking assessment of the performance difference and the 'tracking error' between funds tracking the original 'parent' indices and the funds had they tracked the revised excluding controversies and excluding controversial weapons indices. Members will be well aware that past performance is no guarantee of future results, however the data State Street has provided gives an indication of the extent to which the changes they are making to their indices could change the performance of these funds and so the Fund's investments in them, as shown in the following table:

	Performance Data (Annualised %)						**Tracking Error % (ex post)**	
Fund Name	1yr Perf *Screened*	1yr Perf (Parent)	3yr Perf *Screened*	3yr Perf (Parent)	5yr Perf *Screened*	5yr Perf (Parent)	3yr (Annualised)	5yr (Annualised)
FTSE Developed **Europe ex UK** ex Controversies ex CW Index	0.63	0.70	3.23	3.83	8.54	8.92	0.51	0.44
FTSE **North America** ex Controversies ex CW Index	11.95	10.91	13.05	12.47	16.19	15.84	0.35	0.37
FTSE **Japan** ex Controversies ex CW Index	6.85	6.76	4.84	4.87	9.00	9.03	0.17	0.21
FTSE Developed **Asia Pacific ex Japan** ex Controversies ex CW Index	-5.27	-5.37	1.65	2.18	8.32	8.69	0.78	0.79

5.5 The 'tracking error' figure is an indication of how closely the revised benchmarks can be expected to match their original benchmarks. As a comparison, efficient index tracking funds can expect to show a tracking error of around 0.05% whereas actively managed funds will have a higher tracking error – the target tracking error for Border to Coast Overseas Equity sub-fund for example is 1.00% to 3.00% although it is currently at the bottom end of that range.

6. PASSIVE V ACTIVE – EXCLUSION V ENGAGEMENT

6.1 The approach State Street is taking to companies that they do not wish to invest in is to exclude these companies from the underlying benchmarks. As a passive investor, this is one of the few approaches available as passive investment typically requires holdings in all the main components of a particular stock market index. Active equity investors, such as Border to Coast, are able to make decisions on which companies to hold or the weighting to apply to each company based on a wide range of factors, including responsible investment – environmental, social and governance issues and the likely impact of those issues on the finance performance of that company.

6.2 Border to Coast has provided an explanation of their approach to responsible investment at Appendix D, and why they favour engagement over divestment. In summary this involves incorporating environmental social and governance (ESG) factors into their investment analysis and decision-making, enabling long-term sustainable performance. Border to Coast's approach means they will sometimes hold stocks that are on State Street's exclusion list because (for example) they believe the company's direction of travel in relation to ESG issues is positive, they are better than their peers in these areas, or they are able to take into account a wider range of assessments from providers of ESG information. More information on Border to Coast's approach to Responsible Investment is included in a subsequent agenda item.

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Appendix A

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Teesside Pension Fund

Quarterly Investment Report - Q3 2020

Contents

Note
1) Border to Coast

Executive Summary

Overall Value of Teesside Pension Fund

Value at start of the quarter	£1,360,009,017
Inflows	£0
Outflows	£0
Net Inflows / Outflows	£0
Realised / Unrealised gain or loss	£(24,538,237)
Value at end of the quarter	£1,335,470,781

Over Q3 2020, Teesside's holdings performed as follows:

- The UK Listed Equity Fund outperformed its benchmark by 0.14%
- The Overseas Developed Markets Equity Fund outperformed its benchmark by 0.52%

Teesside did not make any subscriptions or redemptions during Q3 2020.

Note
1) Source: Northern Trust
2) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund
3) Returns for periods greater than one year are annualised
4) Past performance is not an indication of future performance and the value of investments can fall as well as rise.
5) Inflows and Outflows values may include income.

Portfolio Analysis - Teesside Pension Fund
at 30 September 2020

Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	1,096,259,806.00	82.09
Border to Coast Overseas Dev Markets	40% S&P 500, 30% FTSE Developed Europe Ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan	239,210,974.62	17.91

Available Fund Range

Fund
Border to Coast UK Listed Equity
Border to Coast Overseas Dev Markets
Border to Coast Emerging Markets Equity
Border to Coast UK Listed Equity Alpha
Border to Coast Global Equity Alpha
Border to Coast Sterling Inv Grade Credit

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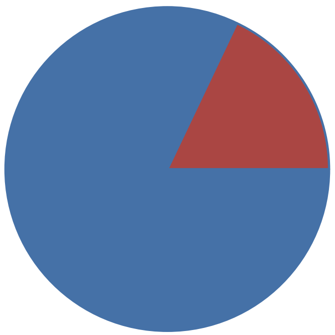
Teesside Pension Fund - Fund Breakdown



Border to Coast UK Listed Equity 82.09% £1,096,259,806.00
Border to Coast Overseas Dev Markets 17.91% £239,210,974.62

Note
1) Source: Northern Trust

Portfolio Contribution - Teesside Pension Fund
at 30 September 2020

Fund	Portfolio weight (%)	Fund return (net) over the quarter (%)	Benchmark return over the quarter (%)	Excess return (%)	Contribution to performance over the quarter (%)
Border to Coast UK Listed Equity	82.09	(2.78)	(2.92)	0.14	(2.30)
Border to Coast Overseas Dev Markets	17.91	2.94	2.42	0.52	0.49
Total	**100.00**	**(1.80)**			

The UK Listed Equity Fund returned -2.78% over the quarter, which was 0.14% ahead the FTSE All Share Index.
The Overseas Developed Markets Equity Fund returned 2.94% over the quarter, which was 0.52% ahead of the composite benchmark.

Overall, Teesside's investments with Border to Coast returned -1.80% during Q3 2020.

Note
1) Source: Northern Trust & Border to Coast

Valuation Summary
at 30 September 2020

Fund	Market value at start of the quarter GBP (mid)	Total weight (%)	Strategy weight (%)	Inflows (GBP)	Outflows (GBP)	Realised / unrealised gain or loss	Market value at end of the quarter GBP (mid)	Total weight (%)	Strategy weight (%)
Border to Coast UK Listed Equity	1,127,627,384.10	82.91				(31,367,578.10)	1,096,259,806.00	82.09	
Border to Coast Overseas Dev Markets	232,381,633.18	17.09				6,829,341.44	239,210,974.62	17.91	
Total	**1,360,009,017.28**	**100.00**				**(24,538,236.66)**	**1,335,470,780.62**	**100.00**	

Note
1) Source: Northern Trust
2) Values do not always sum due to rounding
3) Inflows and Outflows values may include income.

Summary of Performance - Funds (Net of Fees) Teesside Pension Fund
at 30 September 2020

	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
Fund	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**
Border to Coast UK Listed Equity	(5.74)	(7.28)	1.54	(2.78)	(2.92)	0.14	(15.12)	(16.59)	1.47	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	6.43	5.13	1.30	2.94	2.42	0.52	5.21	3.22	1.99	--	--	--	--	--	--

Note
1) Source: Northern Trust
2) Values do not always sum due to rounding
3) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund
4) Performance is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance calculations.
5) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

Summary of Performance - Funds (Gross of Fees) Teesside Pension Fund
at 30 September 2020

	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
Fund	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**	**Fund**	**Index**	**Relative**
Border to Coast UK Listed Equity	(5.73)	(7.28)	1.55	(2.78)	(2.92)	0.14	(15.11)	(16.59)	1.48	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	6.45	5.13	1.31	2.94	2.42	0.52	5.22	3.22	2.00	--	--	--	--	--	--

Note
1) Source: Northern Trust
2) Values do not always sum due to rounding
3) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund
4) The performance shown above does not include the costs of operating the ACS such as the investment management, depository and audit fees.
5) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

Border To Coast UK Listed Equity Fund - Overview at 30 September 2020

UK Listed Equity Fund

The Fund generated a negative total return of -2.78% during the quarter compared to the benchmark return of -2.92% resulting in 0.14% of outperformance.

The UK lagged the majority of global equity markets which have continued to benefit from monetary and fiscal stimulus and economic recovery. An increase in the number of COVID-19 cases and reimposition of some of the restrictive measures which had just recently been relaxed had an impact on sentiment. In addition, the UK market has a relatively large exposure to Energy stocks, which have continued to underperform as the recovery in oil prices stalled, and minimal exposure to Technology, which has been far more resilient.

The Fund's outperformance of the benchmark during the quarter added to the outperformance achieved over the first half of the year. This has been due to the following factors:

- Bias towards quality companies with relatively strong balance sheets and resilient business models;
- Overweight to sector specialist funds (Impax Environmental, Biotech Growth), and.
- Strong stock selection in Resources (overweight in Antofagasta and Fresnillo), Industrials and Consumer (overweight in William Hill and Next), partly offset by weaker selection in Financials.

This was partly offset by:

- Underweight position in smaller companies, which rebounded during the quarter, and a modest overweight position in high yielding companies which have experienced dividend cuts;
- Underweight to Consumer sectors which have rebounded following tentative signs of economic recovery and the easing of lockdowns, and
- Weaker stock selection in Financials.

The portfolio has maintained a relatively low risk profile given concerns around heightened geopolitical risks compounded by uncertainty regarding Brexit. This low risk profile has been beneficial for most of this year as uncertainty has remained high and investors have remained cautious despite the strong equity market recovery. The portfolio managers have modestly increased exposure to more cyclical, value-oriented stocks to take advantage of relative performance, as well as adding to favoured companies at lower valuations. The Fund will continue to focus on long term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility.

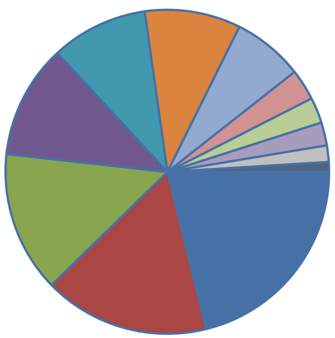
Note
1) Source: Border to Coast

Border To Coast UK Listed Equity Fund at 30 September 2020

Largest Relative Over/Underweight Sector Positions (%)

Common Stock Funds	+1.68
Industrials	+1.13
Basic Materials	+0.69
Consumer Goods	+0.60
Oil & Gas	+0.47
Financials	-3.67
Consumer Services	-3.00
Technology	-0.29
Utilities	-0.28
Health Care	-0.11

Sector Portfolio Breakdown



Note
1) Source: Northern Trust

UK Listed Equity Fund

The Border to Coast UK Listed Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the FTSE All Share Index by at least 1% per annum over rolling 3 year periods (before calculation of the management fee).

The majority of the Fund's performance will arise from stock selection decisions.

Sector Weights:

Common Stock Funds (o/w) – exposure to smaller companies and sector specialist investments via collective vehicles with long-term track records of outperformance.

Industrials (o/w) – diversified sector benefiting from exposure to longer-term growth in global investment capital expenditure.

Basic Materials (o/w) – strong cash generation enabling significant debt reduction, increased shareholder distributions and increased capital investment over the long term; beneficiary of growing Chinese infrastructure expenditure.

Financials (u/w) – underweight in Banks due to concerns over UK consumer debt, rising unemployment, growing impairments linked to COVID-19 lockdown, residual Brexit uncertainty and deteriorating China-US relations impacting Asian focused banks. This is partly offset by overweight positions in Insurers and Wealth Managers, as they are expected to benefit from increase in Asian and Emerging Market wealth.

Consumer Services (u/w) – high street and leisure expected to continue to see pressure on discretionary spending from a more cautious UK consumer; slow footfall recovery from COVID-19 shutdowns and high occupancy costs; high street retail remains structurally challenged by increased online penetration.

Technology (u/w) – a small sector at just over 1% of the FTSE All Share benchmark. Predominantly smaller market cap companies where valuations can be stretched.

Border To Coast UK Listed Equity Fund Attribution at 30 September 2020

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
William Hill	0.63	144.15	0.15	144.29	0.29
Fresnillo	0.66	42.33	0.12	42.45	0.23
Antofagasta	1.15	9.69	0.19	9.63	0.14
Next	1.02	21.54	0.40	21.58	0.13
Impax Environmental Markets	1.03	11.03	0.05	11.97	0.12

William Hill (o/w) – US online sports betting market opportunity gathered pace and company received cash bid from US joint venture partner, Caesars Entertainment Inc.

Fresnillo (o/w) – beneficiary of high gold and silver prices which continue to benefit from *safe-haven* status, given economic uncertainty.

Antofagasta (o/w) – benefited from higher copper prices, driven by robust demand from China and COVID-19 related supply restrictions at major producers in central and southern America.

Next (o/w) – improved profit guidance and lower net debt levels, as resilient trading through lockdown continues to exceed expectations.

Impax Environmental Markets (o/w) – a leading ESG-focused fund specialising in alternative energy, energy efficiency, water treatment, pollution control and waste technology, whose underlying holdings have seen sustained valuation increases.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast UK Listed Equity Fund Attribution Continued at 30 September 2020

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Ocado	0.00	0.00	0.71	35.31	(0.19)
Scottish Mortgage Investment Trust	0.00	0.00	0.78	20.85	(0.15)
Flutter Entertainment	0.00	0.00	0.79	15.62	(0.12)
3I Group plc	0.00	0.00	0.51	19.70	(0.10)
Kingfisher	0.00	0.00	0.33	34.37	(0.09)

Ocado (u/w) – UK online grocery demand has increased significantly during the COVID-19 lockdown and the switch to new grocery supplier M&S appears to have been taken well.

Scottish Mortgage Investment Trust (u/w) – the trust holdings are biased towards global large cap technology companies which have benefited during the COVID-19 lockdown, the fund is exposed to these trends via Allianz Technology Trust.

Flutter Entertainment (u/w) – US sports betting opportunity continues to gather pace as individual states legalise online sports betting and major US sports return, Fund exposure to this trend gained through William Hill.

3I Group plc (u/w) – positive momentum in its med-tech and personal care holdings alongside a recovery in retail, where its largest holding, Action, has seen strong online growth.

Kingfisher (u/w) – DIY and home & garden improvements are one of the beneficiaries of lockdown, alongside a boost to the property market from introduction of the temporary stamp duty holiday.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast UK Listed Equity Fund at 30 September 2020

Largest Relative Over/Underweight Stock Positions (%)

Impax Environmental Markets	+0.98
Antofagasta	+0.96
Schroder UK Smaller Companies Fund	+0.86
BHP Billiton	+0.85
Liontrust UK Smaller Companies	+0.82
Glencore	-0.92
Flutter Entertainment	-0.79
Scottish Mortgage Investment Trust	-0.78
Ocado	-0.71
SEGRO	-0.59

Note
1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Impax Environmental Markets – leading ESG focused fund delivering strong long-term outperformance and focusing on alternative energy, energy efficiency, water treatment, pollution control and waste technology.

Antofagasta – operates at the lower end of the cost curve and benefits from attractive long-term demand for copper, driven by electric vehicles and Chinese infrastructure investment.

Schroder UK Smaller Companies Fund – provides UK small cap exposure with a long-term track record of outperformance.

BHP Billiton – diversified commodity exposure and strong cash generator benefitting from operating at the lower end of the cost curve and proximity to end markets.

Liontrust UK Smaller Companies – specialist UK small cap fund manager with long-term track record of outperformance; investment style focused on intellectual property, strong distribution channels and recurring business.

Bottom 5 Holdings Relative to Benchmark:

Glencore – higher risk commodity company with significant operations in geographies with weak governance; ongoing corruption investigations and allegations of bribery; coal exposure higher than peers and poor relative ESG score.

Flutter Entertainment – beneficiary of the ongoing deregulation taking place in the US online and sports betting market, the fund has similar exposure via William Hill.

Scottish Mortgage Investment Trust – investment trust with a focus on global large cap technology, fund has preference for Allianz Technology Trust with a similar investment focus.

Ocado – UK online grocery market continues to grow and offers technology solution to food retailers. However, valuation stretched, cash burn high and the investment returns from constructing overseas centres unclear.

SEGRO – focussed upon logistics and industrial units across Europe; Fund has a preference for UK-exposed real estate companies.

Major transactions during the Quarter

Purchases:

AstraZeneca (£14.0m) – strong revenue growth from attractive portfolio of recent launches and broad, late stage pipeline.

Royal Dutch Shell B (£13.0m) – write down of fossil fuel assets and announcement of plans to accelerate expansion into renewables.

Sales:

Antofagasta (£9.0m) – reduced overweight as shares benefitted from Chinese demand for copper and supply restrictions.

Fresnillo (£7.0m) – reduced overweight as shares have been driven by *safe haven* demand for gold and silver.

Border To Coast Overseas Developed Markets Equity Fund - Overview at 30 September 2020

Overseas Developed Markets Fund

The Fund generated a total return of 2.94% during the quarter compared to the composite benchmark return of 2.42% resulting in outperformance of 0.52%. US (+4.0%) was the strongest market and Europe ex-UK (+1.5%) was the weakest. All regions outperformed their respective benchmarks.

The Fund has continued to benefit from the recovery in equity markets supported by extensive monetary and fiscal stimulus. However, markets were noticeably weaker towards the end of the quarter as a result of a rise in COVID-19 cases and the reintroduction of some lockdown measures.

The Fund has continued to out-perform due to the following:

- bias towards quality companies with relatively strong balance sheets and resilient business models which have continued to outperform, and an underweight to smaller companies which have lagged the market recovery;
- underweight position in Financials which have continued to lag the broader market; and
- strong stock selection in Technology (overweight in NVIDIA), Consumer (overweight in Hyundai and Techtronic) and Resources (overweight in Xinyi Solar); partly offset by weaker selection in Industrials (underweight FedEx and UPS).

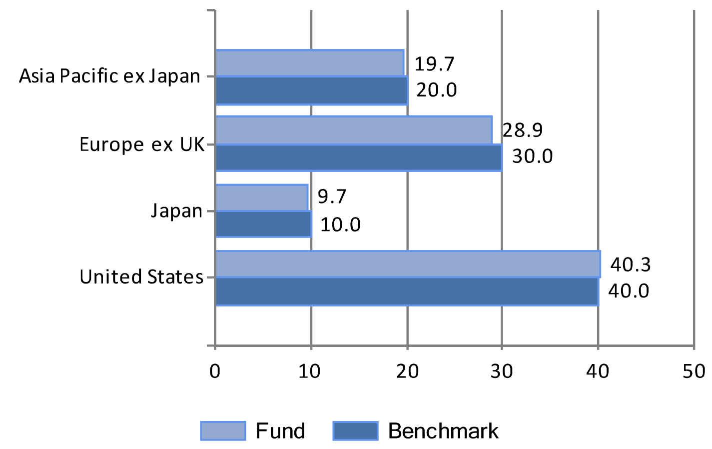
This has been partly offset by a modest overweight position in high yielding companies who have experienced dividend cuts, and an increasing tilt towards Value stocks which have underperformed during the quarter.

The Fund has a relatively low risk profile which is driven by low correlations between the four constituent portfolios, whose individual risk profiles are generally in the middle of the targeted range for tracking error of 1 – 3%. It is unlikely that there will be material changes to portfolio positioning in the short term and the sub-fund will continue to focus on long-term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility.

Note
1) Source: Border to Coast

Border To Coast Overseas Developed Markets Equity Fund
at 30 September 2020

Regional Breakdown



Overseas Developed Markets Fund

The Border to Coast Overseas Developed Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the Benchmark (*) by at least 1% per annum over rolling 3 years period (before calculation of the management fee).

The Fund will not generally make active regional allocation decisions and the majority of its performance will arise from stock selection.

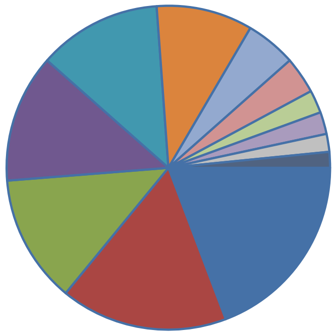
(*) The Benchmark is a composite of the following indices:
- 40% S&P 500
- 30% FTSE Developed Europe ex UK
- 20% FTSE Developed Asia Pacific ex Japan
- 10% FTSE Japan

	Inception to Date			Quarter			1 Year			3 Years		
Fund	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Overseas Developed Equity Fund	**6.43**	**5.13**	**1.30**	**2.94**	**2.42**	**0.52**	**5.21**	**3.22**	**1.99**	**--**	**--**	**--**
United States	11.90	10.30	1.60	4.55	3.98	0.57	12.28	9.14	3.14	--	--	--
Japan	3.97	2.33	1.63	3.68	2.30	1.39	3.60	2.21	1.40	--	--	--
Europe ex UK	2.42	2.39	0.04	0.90	1.47	(0.57)	(1.13)	(0.01)	(1.12)	--	--	--
Asia Pacific ex Japan	3.02	0.21	2.80	2.68	0.78	1.90	1.63	(3.24)	4.87	--	--	--

Note
1) Please note that only the total Overseas Developed Equity Fund performance line is net of ACS charges such as depository and audit fees.
Investment management fees have not been included in the performance.

Border To Coast Overseas Developed Markets Equity Fund
at 30 September 2020

Sector Portfolio Breakdown



Note
1) Source: Northern Trust
2) The pie-chart shows the sector allocation of the fund . The benchmark sector allocation is shown in brackets.

Overseas Developed Markets Fund

Sector Weights:

Common Stock Funds (o/w) – exposure to smaller companies via collective vehicles, specifically in US, Europe and Japan.

Technology (o/w) – high relative exposure in Europe and Pacific ex-Japan, along with full allocations in the US and Japan based on long-term structural growth drivers, including Internet of Things, Artificial Intelligence, Electric/Autonomous vehicles, new generation memory chips, the continued transition towards cloud-based services and change in software business models to long-term subscription revenues.

Basic Materials (o/w) – valuations below long-term averages and strong free cash flow generation, enabling increased shareholder distribution.

Financials (u/w) – significant underweight in Banks due to concerns over profitability in a low interest rate environment, non-performing loans, legacy litigation issues and the risk of increased regulation. Partly offset by overweight positions in Insurers and Wealth Managers, as they are expected to benefit from long-term increase in investment wealth, although shorter term pressures from the sharp fall in financial markets.

Industrials (u/w) – short-term disruption from current macroeconomic uncertainty and longer-term concerns regarding capital expenditure with some attractive opportunities in high value add sectors such as automation.

Utilities (u/w) – considered to be a relatively defensive sector in current market conditions; however, pressure from increased capital investment, changes in government policy, increased regulatory risk and technological advances in renewable power generation are having an adverse impact on "traditional" power generation companies. In addition, there is long standing government influence, particularly in Europe, where the sector is considered to be of strategic importance and where interests are not always aligned with shareholders.

Border To Coast Overseas Developed Markets Equity Fund Attribution at 30 September 2020

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
NVIDIA Corporation	0.93	37.04	0.48	36.18	0.13
Xinyi Solar	0.24	60.85	0.00	36.10	0.10
Ballie Gifford Shin Nippon	0.37	23.24	0.00	0.00	0.06
Hyundai Motor	0.33	79.26	0.17	79.60	0.06
JP Morgan European Smaller Companies	0.39	18.71	0.00	0.00	0.05

NVIDIA Corporation (o/w) – strong results and well-received product launches for data centre and gaming processors.

Xinyi Solar (o/w) – Chinese government policy supportive of industry growth prospects, leading to increased demand for solar products and positive trading update.

Baillie Gifford Shin Nippon (o/w) – good underlying portfolio performance, and movement from a small discount to around a 4% premium to net asset value.

Hyundai Motor (o/w) – scale up of its electric vehicle (EV) business and launch of EV dedicated platform, combined with general recovery in auto sales.

JP Morgan European Smaller Companies (o/w) – rebound in smaller companies following significant under-performance in previous quarter - and the fund also benefited from rotation from quality into value stocks.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 30 September 2020

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Citigroup	0.32	(18.68)	0.13	(18.79)	(0.05)
UPS	0.00	0.00	0.17	43.88	(0.05)
Vestas Wind Systems	0.00	0.00	0.14	52.37	(0.05)
AMD	0.00	0.00	0.14	48.95	(0.04)
Daimler	0.00	0.00	0.19	29.40	(0.04)

Citigroup Inc (o/w) – discovery of control issues at Citi coincided with broad bank sector weakness, looming regulatory stress tests and the departure of the CEO.

UPS (u/w) – surge in e-commerce fulfilment drove revenue growth whilst new CEO commits to re-focus on profitability metrics.

Vestas Wind Systems (u/w) – the company is benefitting from winning large orders in North America and governments encouraging a more rapid transition to green energy, particularly in Europe following announcement of the Green Deal.

AMD (u/w) – gains reflect expanding opportunity in accelerated computing solutions within the data centre market.

Daimler (u/w) – the auto sector has outperformed on the back of stimulus packages by various European countries which may result in increased demand.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund
at 30 September 2020

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+3.04
Alphabet A	+0.69
Samsung Electronics	+0.53
Visa Inc	+0.47
NVIDIA Corporation	+0.46
Alphabet C	-0.62
Mastercard	-0.43
PayPal	-0.33
Comcast	-0.30
Enel SPA	-0.30

Top 5 Holdings Relative to Benchmark:

Vanguard US Mid Cap ETF – provides exposure to the smaller companies in the US index, although the portfolio retains an underweight exposure to smaller companies in aggregate.

Alphabet A – parent company of Google; offset by not holding the non-voting C shares, which results in a modest underweight exposure to Alphabet overall.

Samsung Electronics – exposed to structural growth in the memory chip market; the group also has a diversified earnings stream and large shareholder return potential; the overweight in the ordinary shares is partly offset by not owning the preference shares.

Visa Inc – exposed to strong drivers of the move to cashless payments and growth in cross border transactions.

NVIDIA Corporation – technology company that sells into strong end markets for cloud servers, machine learning and cutting-edge gaming graphics.

Bottom 5 Holdings Relative to Benchmark:

Alphabet C – exposure in A shares aggregating to a modest underweight exposure to Alphabet overall.

Mastercard – based on valuation prefer Visa, the other global payment network company with similar exposure to growth trends in the payments space.

PayPal – growth in payments platform and processing but exposure accessed through other portfolio holdings including Visa and FIS.

Comcast – faces challenges in broadcast media and theme park businesses; preference for Charter, a pure play broadband provider.

Enel SPA – higher risk profile due to large exposure to Italy (political uncertainty) as well as exposure to Latin America, particularly Brazil.

Note
1) Source: Northern Trust

APPENDICES

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2020

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
NVIDIA Corporation	0.93	0.48	0.13
Deere & Co	0.30	0.10	0.05
Xylem Inc	0.28	0.02	0.05
AbbVie	0.00	0.22	0.04
AT&T	0.00	0.29	0.04

NVIDIA Corporation (o/w) – strong results and well received product launches for data centre and gaming processors.

Deere & Co (o/w) – combination of better than consensus results and strength in key agricultural commodity prices.

Xylem Inc (o/w) – Xylem is a leader in developing innovative water solutions through smart technology. Quarterly results exceeded expectations; large contract wins allayed concerns around potentially lower levels of fixed custom.

AbbVie (u/w) – general weakness in pharmaceutical sector; AbbVie also impacted by a class action claiming that the company provided misleading information to investors regarding its largest selling drug.

AT&T (u/w) – rumoured potential divestment could see a reduction in debt burden but at the sacrifice of cash flow which would place the dividend under pressure.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2020

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Citigroup	0.32	0.13	(0.05)
UPS	0.00	0.17	(0.05)
AMD	0.00	0.14	(0.04)
FedEx	0.00	0.09	(0.04)
Qualcomm	0.00	0.19	(0.03)

Citigroup (o/w) – discovery of control issues at Citi coincided with broad bank sector weakness, looming regulatory stress tests and the departure of the CEO.

UPS (u/w) – surge in e-commerce fulfilment drove revenue growth whilst new CEO committed to re-focus on profitability metrics.

AMD (u/w) – gains reflect expanding opportunity in accelerated computing solutions within the data centre market.

FedEx (u/w) – operations recovering from reduced activity earlier in the year with expectations that this will be sustained by growth in e-commerce.

Qualcomm (u/w) – resolution of anti-trust litigation with US Federal Trade Commission clearing the way for a lucrative licensing deal with Huawei.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2020

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+3.04
Alphabet A	+0.69
Visa Inc	+0.47
NVIDIA Corporation	+0.46
Microsoft	+0.42
Alphabet C	-0.62
Mastercard	-0.43
PayPal	-0.33
Comcast	-0.30
AT&T	-0.29

Note
1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Vanguard US Mid Cap ETF – provides exposure to the smaller companies in the US index, although the portfolio retains an underweight exposure to smaller companies in aggregate.

Alphabet A – parent company of Google; offset by not holding the non-voting C shares, which results in a modest underweight exposure to Alphabet overall.

Visa Inc – exposed to strong drivers of the move to cashless payments and growth in cross border transactions.

NVIDIA Corporation – technology company that sells into strong end markets for cloud servers, machine learning and cutting-edge gaming graphics.

Microsoft – structural growth from Azure cloud hosting business and migration of Business Office to MS365 online, with associated opportunity for value added sales and increased customer stickiness.

Bottom 5 Holdings Relative to Benchmark:

Alphabet C – exposure in A shares aggregating to a modest underweight exposure to Alphabet overall.

Mastercard – based on valuations we prefer Visa, the other global payment network company with similar exposure to growth trends in the payments space.

PayPal – growth in payments platform and processing but exposure accessed through other portfolio holdings including Visa and FIS.

Comcast – faces challenges in broadcast media and theme park businesses - preference for Charter, a pure play broadband provider.

AT&T – high debt levels compromise ability to invest in 5G and newly acquired media business.

Major transactions during the Quarter

Purchases:

Vanguard US Mid Cap ETF (£9.2mn) – rotating money into smaller companies after a period of historically poor relative performance.

Sales:

WEC Energy Group (£6.2mn) – full disposal after strong relative performance on risk that the company's coal fired generation may be subjected to harsher regulation in the event of a Biden super majority in forthcoming election.

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2020

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
JP Morgan European Smaller Companies	0.39	0.00	0.05
Teleperformance	0.40	0.08	0.04
Logitech International	0.39	0.05	0.04
Telefonica	0.00	0.07	0.03
Neste Oyj	0.24	0.10	0.03

JP Morgan European Smaller Companies (o/w) – rebound in smaller companies following significant underperformance in previous quarter and the fund also benefited from rotation from quality into value stocks.

Teleperformance (o/w) – recent results better than expected as the management stated that they were better equipped to deal with COVID-19 than the market had assumed.

Logitech International (o/w) – the company has experienced an increase in demand due to COVID-19 induced lockdowns and increased working from home.

Telefonica (u/w) – the company has underperformed on the back of Latin America being the epicentre of COVID-19, impacting sales in the markets that they operate in.

Neste Oyj (o/w) – the company saw deliveries of renewable diesel soar to a record in the previous quarter with an operating profit that was a third higher than expected.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2020

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Vestas Wind Systems	0.00	0.14	(0.05)
Daimler	0.00	0.19	(0.04)
Total	0.59	0.37	(0.04)
Eni	0.21	0.08	(0.04)
Orange	0.24	0.09	(0.04)

Vestas Wind Systems (u/w) – the company is benefitting from winning large orders in North America and governments encouraging a more rapid transition to green energy, particularly in Europe following announcement of the Green Deal.

Daimler (u/w) – the auto sector has outperformed on the back of stimulus packages by various European countries which may result in increased demand.

Total (o/w) – adversely impacted by lower oil and gas prices as demand remains relatively weak.

Eni (o/w) – adversely impacted by the fall in oil and gas prices, resulting in large second quarter losses and significant dividend cut.

Orange (o/w) – concerns over revenue growth in core areas of the business due to slowdown in France and Spain.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2020

Largest Relative Over/Underweight Stock Positions (%)

Novo Nordisk	+0.40
JP Morgan European Smaller Companies Trust	+0.39
HBM Healthcare	+0.37
Koninklijke Philips	+0.34
Logitech International	+0.34
Enel SPA	-0.30
Zurich Insurance Group	-0.23
Kering	-0.22
Adyen	-0.22
Lonza	-0.20

Note
1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Novo Nordisk – market leading position in diabetes treatment, with the potential to adapt an existing drug to be effective against Alzheimer's and a developing programme in obesity treatments.

JP Morgan European Smaller Companies Trust – provides relatively defensive exposure to smaller companies in Europe with weighting likely to be reduced over time.

HBM Healthcare – specialist healthcare investment trust with an excellent long-term track record, particularly generating value from the listing of private companies.

Koninklijke Philips – increased demand for healthcare equipment driven by Emerging Markets and the increased adoption of image-guided radiation therapy equipment.

Logitech International – at the forefront of supplying computer hardware for both businesses and personal users with increased demand for home working and gaming.

Bottom 5 Holdings Relative to Benchmark:

Enel SPA – higher risk profile energy company, due to large exposure to Italy (political uncertainty) as well as exposure to Latin America, particularly Brazil.

Zurich Insurance Group – high valuation relative to peers and over ambitious profitability targets.

Kering – over reliance on Gucci brand.

Adyen – very high valuation - but the company has been the main benefactor from the demise of Wirecard.

Lonza – current high valuation does not leave any room for disappointment.

Major transactions during the Quarter

Purchases:

Siemens (£2.2m) – increasing overweight position - company remains cheap relative to the sector; this should narrow following the successful disposal of the energy division.

Continental (£1.9m) – increasing overweight position as the company should start to benefit from increased car production and move to Electric Vehicles.

Sales:

HBM Healthcare (£2.3m) – taking profits after recent strong outperformance.

Border To Coast Overseas Developed Markets Equity Fund - Japan
at 30 September 2020

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Ballie Gifford Shin Nippon	0.37	0.00	0.06
Nintendo	0.37	0.16	0.03
Renesas Electronics	0.15	0.01	0.03
LIXIL	0.11	0.01	0.03
Softbank Group Corp	0.44	0.23	0.02

Baillie Gifford Shin Nippon (o/w) – good underlying portfolio performance and movement from a small discount to around a 4% premium to NAV.

Nintendo (o/w) – excellent Switch sales as production catches up with demand and game announcements/releases gave positive surprises.

Renesas Electronics (o/w) – semiconductor and integrated device designer/manufacturer rebounds to pre COVID-19 level, following evidence of flexible cost control.

LIXIL (o/w) – positive reaction to restructuring and proposed sales of non-core businesses; growth expectations for sensor operated taps, toilets etc. as COVID-19 increase awareness.

Softbank Group Corp (o/w) – positive response to technology investor's proposed further disposals, enabling debt reduction and share buybacks; positive sentiment may be tempered as disposal of arm will take time to clear regulatory hurdles and could be blocked by China.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Japan
at 30 September 2020

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Nidec	0.00	0.11	(0.03)
East Japan Railway	0.20	0.06	(0.03)
NTT DoCoMo	0.00	0.11	(0.03)
M3	0.00	0.07	(0.02)
Shiseido	0.14	0.06	(0.01)

Nidec (u/w) – continued strength due to company being increasingly optimistic on revenue and profit forecasts.

East Japan Railway (o/w) – lack of clarity on future commuter rail traffic amid the continuing impact from COVID-19 as more companies embrace increased “work from home” as a sustainable future business model.

NTT DoCoMo (u/w) – buyout offer for this mobile phone carrier from parent NTT (Nippon Telegraph & Telephone).

M3 (u/w) – medical information services company that has benefitted from COVID-19 and the increasing move away from face to face medical consultations.

Shiseido (o/w) – premium cosmetics brand continues to suffer from prolonged lack of foreign tourist purchases due to travel collapse as a result of COVID-19.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Japan
at 30 September 2020

Largest Relative Over/Underweight Stock Positions (%)

Ballie Gifford Shin Nippon	+0.37
Nintendo	+0.22
Shin-Etsu Chemical	+0.21
Softbank Group Corp	+0.21
Takeda Pharmaceutical	+0.19
Daiichi Sankyo	-0.15
Recruit Holdings	-0.13
Daikin Industries	-0.13
Nidec	-0.11
NTT DoCoMo	-0.11

Note
1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Ballie Gifford Shin Nippon – smaller companies-focused with strong long-term relative performance.

Nintendo – Switch selling very well, games trending to higher margin digital sales and huge potential from underutilised Intellectual Property rights.

Shin-Etsu Chemical – best in sector with strong cash generation, good growth prospects, margin sustainability and increasing shareholder returns.

Softbank Group Corp – technology investment company trading at a significant discount to the sum of the parts; tends to be volatile partly due to unorthodox style of Founder and Chairman, Masayoshi Son.

Takeda Pharmaceutical – scale benefits from Shire acquisition and strong pipeline. Valuation re-rating expected once strong cash flows and disposals reduce debt taken on at time of Shire deal.

Bottom 5 Holdings Relative to Benchmark:

Daiichi Sankyo – preference for other names in the healthcare sector.

Recruit Holdings – trades on a premium valuation relative to peers in a difficult environment for recruitment.

Daikin Industries – concerns due to exposure to declining air conditioning demand in China and exposure of chemicals business to the auto and technology sectors.

Nidec – concern that future strategy is unclear and company forecasts are too optimistic; move away from declining HDD (hard disk drive) motors will continue to squeeze margins.

NTT DoCoMo – marginal preference for sector peer, KDDI on valuation grounds.

Major transactions during the Quarter

Purchases:

Seven & I Holdings (£2.0m) – increasing overweight in preferred holding as part of rationalisation of retail sector exposure.

Sales:

Kyocera (£3.4m) – disposal of holding on poor long-term outlook; removing duplicate exposure to KDDI, in which it is a large shareholder, and now directly held in the portfolio.

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2020

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Xinyi Solar	0.24	0.00	0.10
Hyundai Motor	0.33	0.17	0.06
LG Chemical	0.41	0.20	0.05
Techtronic Industries	0.36	0.13	0.05
Fortescue Metals	0.40	0.15	0.04

Xinyi Solar (o/w) – Chinese government policy supportive of industry growth prospects, leading to increased demand for solar products and positive trading update.

Hyundai Motor (o/w) – scale up of its electric vehicle (EV) business and launch of EV dedicated platform, combined with general recovery in auto sales.

LG Chemical (o/w) – Korean EV battery companies continued to benefit from expectations of significant medium-term growth following the announcement of the EU Green Deal.

Techtronic Industries (o/w) – strong quarterly results and positive outlook due to increased DIY and trade demand for tools.

Fortescue Metals (o/w) – strong rise in iron ore prices due to increased Chinese demand and supply disruptions.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2020

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
SK Holdings	0.12	0.04	(0.03)
KaKao	0.00	0.13	(0.03)
NCSoft	0.29	0.09	(0.03)
Kia Motors	0.00	0.08	(0.02)
Afterpay	0.00	0.10	(0.02)

SK Holdings (o/w) – strong rise prior to IPO of subsidiary, SK Biopharma, but shares subsequently underperformed.

KaKao (u/w) – South Korean internet services company benefited from COVID-19 disruption with strong demand for its e-commerce and online entertainment services.

NCSoft (o/w) – some concerns regarding competitive threats in the gaming industry combined with lack of new product launches.

Kia Motors (u/w) – general recovery in auto markets.

Afterpay (u/w) – Australian fintech company continuing to benefit from gaining market share in the global payments processing market.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2020

Largest Relative Over/Underweight Stock Positions (%)

Samsung Electronics	+0.53
Samsung SDI	+0.27
AIA Group	+0.27
CSL	+0.27
Fortescue Metals	+0.25
Samsung Electronics Prefs	-0.28
UOB	-0.14
KaKao	-0.13
Hong Kong & China Gas	-0.12
Fisher & Paykel	-0.10

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Top 5 Holdings Relative to Benchmark:

Samsung Electronics – exposed to structural growth in the memory chip market and has a diversified earnings stream; overweight in ordinary shares is partly offset by not owning the preference shares.

Samsung SDI – longer-term trend to transition to electric vehicles is a structural growth story.

AIA Group – despite recent weakness in the Hong Kong market, growth is expected to be driven by increased penetration into underserved provinces in China.

CSL – competitive advantage in the plasma market and strong growth expected for Immunoglobulins (antibodies) and recent positive results underpin the investment rationale.

Fortescue Metals – benefits from its strong position within the iron ore market, the elevated iron ore price and continued demand from China; very strong balance sheet.

Bottom 5 Holdings Relative to Benchmark:

Samsung Electronics Prefs – overweight Samsung Electronics overall via the more liquid Ordinary shares.

UOB – preference for other Singaporean banks with stronger capital positions.

KaKao – Korean internet company has benefited from COVID-19 via its fintech, e-commerce and entertainment businesses; portfolio preference for Naver.

Hong Kong & China Gas – very high valuation with potentially slowing earnings growth and increased regulatory risk in China.

Fisher & Paykel – beneficiary of the COVID-19 crisis - humidification devices used to alleviate respiratory conditions.

Major transactions during the Quarter

Purchases:

Samsung Electronics (£4.0m) – long-term growth prospects remain positive supported by recent significant orders.

HK Exchanges (£2.9m) – long-term growth prospects supported by the likes of secondary listings of Chinese companies.

Sales:

China Mengniu (£4.9m) – full disposal of company as it moved out of the benchmark - investment case not strong enough to retain a non-benchmark holding.

UOB (£4.3m) – rationalisation of holdings in Singaporean banks; company has relatively weaker capital position.

Note

1) Source: Northern Trust

Market Background
at 30 September 2020

Equity markets continued to rise in the third quarter. Monetary and fiscal stimuli have continued to provide impetus for markets, and economic activity picked up as lockdown measures were eased. There has been a resurgence in COVID-19 cases in some countries in recent weeks. This has resulted in the reintroduction of some lockdown measures, although global activity trackers suggest that economies remain more open that they were a few months ago. While still a long way short of pre-pandemic levels, global economic activity over the quarter was well off the lows touched earlier in the year.

Although reported cases are higher in some countries than seen at the peak in March 2020, this is due to the availability of greater testing and so rates of infection are not directly comparable. There have also been developments in the impact of the virus (greater instances of young people being infected) and how it is treated (less use of ventilation, more use of drug treatments). This has resulted in a lower mortality rate to-date in this second wave, with less pressure on hospital and care capacity in general. This has meant that more targeted lockdowns have been favoured over nationwide lockdowns, which has lessened the negative economic impact. Hopes of an effective vaccine in the next few months are fading and there are some signs of a growing unwillingness to be vaccinated.

As a result, global economic activity will continue to be impacted by COVID-19 for some time to come and the maintenance or even extension of fiscal and monetary measures may be required. This will result in a greater fiscal burden which is likely to constrain economic growth in the medium term.

Inflationary pressures have been contained as the increased fiscal and monetary measures have been broadly offset by the reduction in economic activity. However, there is a risk that inflationary pressures build and there appears to be an increased tolerance for higher inflation, particularly as it would help to reduce debt levels. The US Federal Reserve and other major central banks have indicated that monetary policy is likely to remain loose for the foreseeable future.

Labour markets will remain under pressure, particularly when support schemes are reduced or withdrawn. There is also a risk of a two-tier market where employment in occupations that can be performed remotely remains stable, or even grows, and occupations requiring a physical presence, particularly linked to discretionary activities, will face significant pressures.

Performance in 2020 would suggest that equity markets are generally not concerned about the trajectory of the economic recovery. However, closer analysis suggests that this is not the case. There has been a significant divergence in sector returns with Technology and Healthcare performing strongly, with Energy and Consumer sectors much weaker. This sector mix partly explains why the US has outperformed other developed markets in 2020.

Valuations of equity markets are above their long-term average, but investor sentiment remains positive. This is partly due to the TINA factor – There is No Alternative. Government bond yields are low or negative (c. $16 trillion of bonds currently have a negative yield) and credit spreads in both investment grade and high yield have narrowed further. The outlook for commercial real estate is unclear, both in the near term due to payment defaults but also longer term due to changes in demand. Investor allocations to Alternatives continue to increase but it will take time for this capital to be deployed.

Global equity markets continued to rise (+3.8% total return in sterling terms) albeit at a much slower pace than the previous quarter, with a modest correction towards the end of the quarter as COVID-19 cases escalated. Emerging Markets (+5.1%) outperformed Developed Markets (+3.6%) partially reversing the underperformance of the previous two quarters. Within Developed Markets, the US (+4.0%) was the strongest performing major market and the UK (-2.9%) was the weakest. Within Emerging Markets, India (+9.1%) and China (+7.3%) were the strongest performing major markets and Thailand (-14.4%) and Indonesia (-10.4%) were the weakest.

Note
1) Source: Border to Coast

Market Background
at 30 September 2020

In terms of sector performance, Technology (long-term growth trends, short-term beneficiary of disruption) continues to be a strong performer and there has been a recovery of sorts in the Consumer sector (rebound as economic activity picks up). Energy (lower oil and gas prices) and Financials (low yields and expectations of increased non-performing loans) continue to be the laggards. There is also a notable level of concentration in performance – for example, the fabled FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) accounted for more than half of the US return in the last quarter and for all of the return in 2020 as a whole.

In terms of factor performance, Quality continues to be the strongest performer and Value the weakest, trends which have been well established in 2020. High yielding companies continue to underperform although the pace of dividend cuts have eased. Smaller companies have continued to underperform on a global basis but there was a notable recovery in the UK in the last quarter.

Amidst high valuations, equity markets are unlikely to get much support from positive earnings revisions in the near term as economic activity continues to be impacted by increased COVID-19 cases – the recovery does not appear V-shaped at the moment.

In addition, there is likely to be heightened political risk as a result of the impending US Presidential Election. At present, the Democrat candidate Biden has a substantial lead in the polls and a clean sweep of Congress is a possibility. This could result in policies that are far less market friendly (e.g. increased taxes, tougher stance on technology and healthcare companies) although there may be a more conciliatory tone towards China. There is also the risk that Trump disputes the election outcome, creating an extraordinary situation at a time when geopolitical risks are elevated across the globe.

Note
1) Source: Border to Coast

Border to Coast News

People:

- We were pleased to welcome Seven new colleagues to Border to Coast during the Q3 2020:

- Investment: James McLellan, Senior Portfolio Manager within the internal equities team. James has been working in the investment management industry for close to 30 years, both in the UK and Switzerland, for firms including UBS Global Asset Management and Insight Investment. We also welcome Christian Dobson as Portfolio Manager within the Alternatives team and Peter Lunn has joined as Property Programme Manager as we start to ramp up the strength of the property team ahead of launching our first funds in a few years.

- We also welcome James Green as Interim Financial Analyst and Sam Marshall as First Line Risk Manager within our finance team, Ian Green has joined to support our communications both internally and externally and Paul Malone has been appointed as ICT and Project Manager.

- Our Chief Risk officer, Manda McConnell, was one of the first people to join the team and has made a significant contribution in building our organisation. After fulfilling her original commitment to us through our start-up phase, Manda has decided to move on to new challenges. We would like to thank Manda for her contribution, and we wish her all the best in the future.

Investment Funds:

- During the summer we successfully completed our first *crossing* deal – in our UK Listed Equity Fund. Lincolnshire subscribed £373m (from a legacy holding with LGIM) and South Yorkshire redeemed £230m. LGIM provided cash to meet South Yorkshire's redemption, and we were able to find a practical solution to in-specie transfer the remaining £143m, with Lincolnshire maintaining full market exposure throughout. This complex deal ensured significant trading costs were avoided for both parties. Early engagement and a high level of collaboration between Border to Coast, Lincolnshire, South Yorkshire, LGIM and Northern Trust made the process possible.

- In May, we launched our search for China Specialists to manage an external mandate in our Emerging Market Equity Fund and received over 50 submissions. After a thorough selection process, we have appointed UBS and FountainCap to manage this mandate between them.

- Development of our Multi-Asset Credit Fund is progressing well with the appointment of the specialist managers – Wellington, Barings, Ashmore & PGIM. We are aiming to launch the Fund in Q2 2020.

Responsible Investment:

- Last year we signed up to the United Nations-supported Principles of Responsible Investment (PRI), which focuses on incorporating RI into investment decision-making and ownership practices. Our 3-year RI strategy agreed with Partner Funds in 2019 is based on the principles. Signatories are required to report annually on their RI activities – and the PRI provides feedback on progress made and areas for improvement. We are absolutely delighted to have received straight 'A's (and two A+'s). This demonstrates the strong progress we have all collectively made, under the leadership of our Head of RI, Jane Firth, in such a short period of time and is particularly pleasing given it is our first year of submission.

Other news:

- Our CEO, Rachel Elwell, has been asked to join the Investment Association Board – the trade body of the asset management industry. They are leading on a range of initiatives, such as corporate governance, culture, transparency and sustainability. Her appointment will give Partner Funds – and the LGPS in general – a more direct voice in how the industry evolves to better serve asset owners.

Disclosures

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).
Registered in England (Registration number 10795539) at the office 5th Floor, Toronto Square, Leeds, LS1 2HJ

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STATE STREET GLOBAL ADVISORS

Quarterly Investment Report

For the Period 01 Jul 2020 to 30 Sep 2020

Middlesbrough Borough Council

Middlesbrough Borough Council

Report ID: 2769903.1 Published: 22 Oct 2020

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Accounting Summary (expressed in GBP)

As of 30 Sep 2020

Middlesbrough Borough Council

	Market Value 01 Jul 2020		Contributions	Withdrawals	Change in Market Value	Market Value 30 Sep 2020	
Passive Equity Portfolio							
MPF North America Equity Index Sub-Fund	680,378,354	39.74%	0	50,000,000	30,351,796	660,730,151	38.70%
MPF Europe ex UK Equity Index Sub-Fund	408,170,162	23.84%	0	0	5,797,714	413,967,876	24.25%
MPF Japan Equity Index Sub-Fund	256,707,564	14.99%	0	0	5,954,623	262,662,188	15.38%
MPF Asia Pacific ex Japan Equity Index Sub-Fund	366,966,548	21.43%	0	0	2,938,886	369,905,434	21.67%
Total	**1,712,222,629**	**100.00%**	**0**	**50,000,000**	**45,043,019**	**1,707,265,648**	**100.00%**

Performance Summary (expressed in GBP)

As of 30 Sep 2020

Middlesbrough Borough Council

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	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Inception
Passive Equity Portfolio								
MPF North America Equity Index Sub-Fund								21 Sep 2018
Total Returns	-0.45%	4.50%	9.01%	10.51%	N/A	N/A	N/A	10.87%
FTSE World North America Net UK Tax Index	-0.45%	4.54%	9.00%	10.49%	N/A	N/A	N/A	10.84%
Difference	**0.00%**	**-0.04%**	**0.01%**	**0.02%**	**N/A**	**N/A**	**N/A**	**0.03%**
Total Returns (Net)	-0.45%	4.49%	9.00%	N/A	N/A	N/A	N/A	N/A
FTSE World North America Net UK Tax Index	-0.45%	4.54%	9.00%	N/A	N/A	N/A	N/A	N/A
Difference	**0.00%**	**-0.05%**	**0.00%**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
MPF Europe ex UK Equity Index Sub-Fund								26 Sep 2018
Total Returns	0.59%	1.42%	-0.51%	0.38%	N/A	N/A	N/A	2.63%
FTSE All-World Developed Europe ex UK Index	0.67%	1.52%	-0.34%	0.55%	N/A	N/A	N/A	2.72%
Difference	**-0.08%**	**-0.10%**	**-0.17%**	**-0.17%**	**N/A**	**N/A**	**N/A**	**-0.09%**
Total Returns (Net)	0.59%	1.42%	-0.52%	N/A	N/A	N/A	N/A	N/A
FTSE All-World Developed Europe ex UK Index	0.67%	1.52%	-0.34%	N/A	N/A	N/A	N/A	N/A
Difference	**-0.08%**	**-0.10%**	**-0.18%**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
MPF Japan Equity Index Sub-Fund								01 Jun 2001
Total Returns	4.84%	2.32%	2.23%	2.49%	5.38%	11.37%	8.86%	4.11%
FTSE All-World Developed Japan Index	4.97%	2.44%	2.34%	2.59%	5.44%	11.39%	8.86%	3.98%
Difference	**-0.13%**	**-0.12%**	**-0.11%**	**-0.10%**	**-0.06%**	**-0.02%**	**0.00%**	**0.13%**
Total Returns (Net)	4.84%	2.32%	2.21%	N/A	N/A	N/A	N/A	N/A
FTSE All-World Developed Japan Index	4.97%	2.44%	2.34%	N/A	N/A	N/A	N/A	N/A
Difference	**-0.13%**	**-0.12%**	**-0.13%**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Middlesbrough Borough Council

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Inception
MPF Asia Pacific ex Japan Equity Index Sub-Fund								01 Jun 2001
Total Returns	0.02%	0.80%	-3.64%	-3.11%	2.20%	11.46%	6.17%	9.36%
FTSE All-World Developed Asia Pacific ex Japan Index	0.07%	0.80%	-3.63%	-3.11%	2.20%	11.42%	6.13%	9.30%
Difference	**-0.05%**	**0.00%**	**-0.01%**	**0.00%**	**0.00%**	**0.04%**	**0.04%**	**0.06%**
Total Returns (Net)	0.02%	0.80%	-3.65%	N/A	N/A	N/A	N/A	N/A
FTSE All-World Developed Asia Pacific ex Japan Index	0.07%	0.80%	-3.63%	N/A	N/A	N/A	N/A	N/A
Difference	**-0.05%**	**0.00%**	**-0.02%**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

For information regarding performance data, including net performance data, please refer to the section entitled "Important Information" at the end of the report.

R-Factor™ Summary

As of 30 Sep 2020

MPF Europe ex UK Equity Index Sub-Fund

Benchmark: FTSE All-World Developed Europe ex UK Index

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	73.16	73.13	0.03
ESG	73.81	73.79	0.02
Corporate Governance	46.56	46.57	-0.01

Source: SSGA as of 31 Aug 2020

What is R-Factor?

R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-inclass ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

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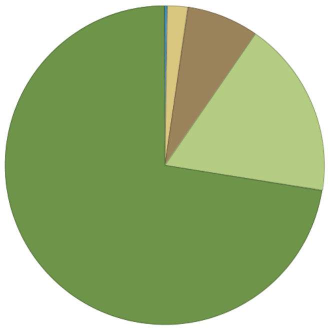
Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	450	99.78%	99.97%
Total Number of Securities in Portfolio	451		

Source: Factset/SSGA as of 31 Aug 2020

Fund R-Factor Profile	
Not Available	0.03%
Laggard	0.22%
Underperformer	2.09%
Average Performer	7.30%
Outperformer	17.87%
Leader	72.48%

Source: Factset/SSGA as of 31 Aug 2020



Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Nestle S.A.	4.88%	4.88%	-0.01%	88.82
Roche Holding AG	3.51%	3.52%	0.00%	70.36
Novartis AG	2.77%	2.75%	0.01%	78.88
SAP SE	2.57%	2.56%	0.01%	93.07
ASML Holding NV	2.16%	2.16%	0.00%	74.81
LVMH Moet Hennessy Louis...	1.72%	1.71%	0.01%	75.60
Novo Nordisk A/S Class B	1.65%	1.64%	0.01%	74.96
Sanofi	1.60%	1.60%	0.00%	80.93
Siemens AG	1.42%	1.42%	0.00%	77.18
Unilever NV	1.29%	1.29%	0.00%	85.38

Source: Factset/SSGA as of 31 Aug 2020

Top 5 R-Factor Ratings				
Gecina SA	0.10%	0.10%	0.00%	95.34
SAP SE	2.57%	2.56%	0.01%	93.07
Henkel AG & Co. KGaA	0.14%	0.14%	0.00%	92.64
Henkel AG & Co. KGaA Pref	0.27%	0.27%	0.00%	92.64
Schneider Electric SE	0.96%	0.96%	0.00%	91.88

Source: Factset/SSGA as of 31 Aug 2020

Bottom 5 R-Factor Ratings				
EXOR N.V.	0.08%	0.08%	0.00%	27.90
Dino Polska S.A.	0.04%	0.04%	0.00%	30.26
BANK POLSKA KASA OPIE...	0.03%	0.03%	0.00%	30.87
Sofina SA	0.06%	0.06%	0.00%	31.04
PSP Swiss Property AG	0.07%	0.08%	0.00%	31.76

Source: Factset/SSGA as of 31 Aug 2020

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

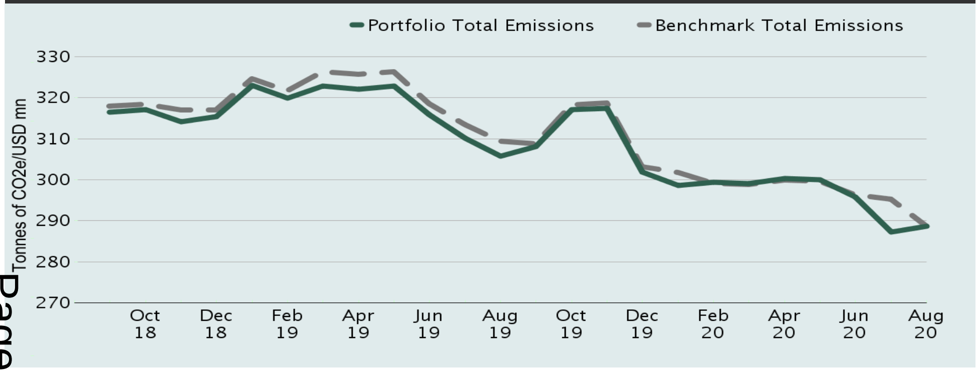
Climate Profile

As of 30 Sep 2020

MPF Europe ex UK Equity Index Sub-Fund

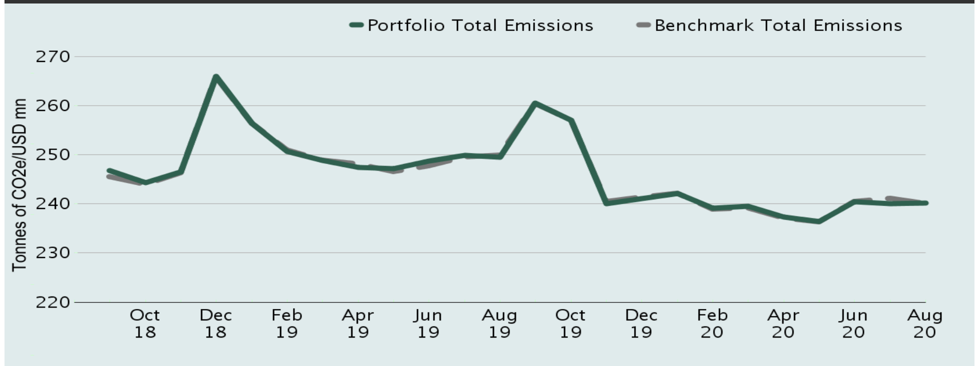
Benchmark: FTSE All-World Developed Europe ex UK Index

Carbon Intensity



Source: TruCost/SSGA as of 31 Aug 2020

Weighted Average Carbon Intensity



Source: TruCost/SSGA as of 31 Aug 2020

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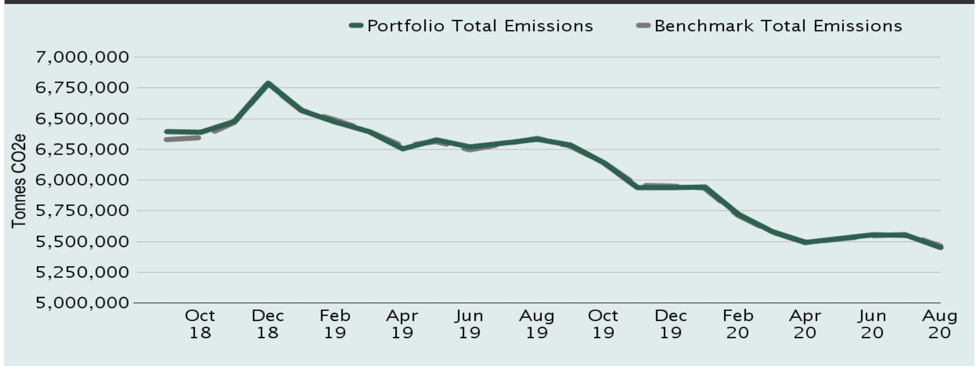
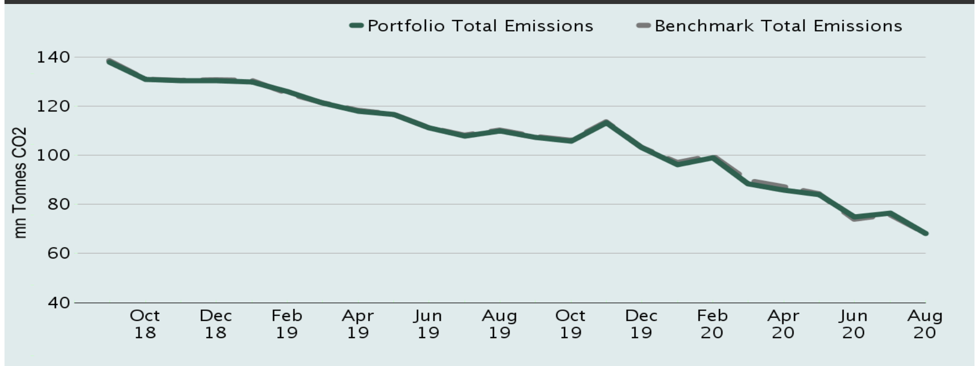
Scope 1+2 Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Total Reserves Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Stewardship Profile

As of 30 Sep 2020

MPF Europe ex UK Equity Index Sub-Fund

Benchmark: FTSE All-World Developed Europe ex UK Index

Stewardship Profile	Q2 2020
Number of Meetings Voted	395
Number of Countries	16
Management Proposals	7,179
Votes for	88.61%
Votes Against	11.39%
Shareholder Proposals	207
With Management	95.17%
Against Management	4.83%

Source: SSGA as of 30 Jun 2020

Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

State Street Global Advisors' (SSGA) asset stewardship program is aimed at engaging with our portfolio companies on issues that impact long-term value creation across environmental, social and governance (ESG) considerations. In the recent past, SSGA has issued extensive guidance on key governance matters such as effective, independent board leadership. SSGA's current focus is on helping boards think about the possible impacts of environmental and social issues and incorporating a sustainability lens into boards' oversight of long-term strategy as a sound business practice.

Gender Diversity

Women on Board	Number of Securities
0	12
1	34
2	63
3	77
4	101
5	72
6	45
7	30
8	6
9	9
10	0
10+	2
Not Available	0
Total	**451**

Source: Factset/SSGA as of 31 Aug 2020

R-Factor™ Summary

As of 30 Sep 2020

MPF North America Equity Index Sub-Fund

Benchmark: FTSE World North America Net UK Tax Index

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	64.28	64.29	-0.01
ESG	62.79	62.80	-0.01
Corporate Governance	65.33	65.33	0.00

Source: SSGA as of 31 Aug 2020

What is R-Factor?

R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-inclass ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

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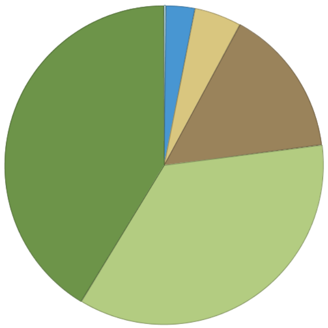
Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	633	99.53%	99.80%
Total Number of Securities in Portfolio	636		

Source: Factset/SSGA as of 31 Aug 2020

Fund R-Factor Profile	
Not Available	0.20%
Laggard	2.95%
Underperformer	4.76%
Average Performer	15.07%
Outperformer	35.68%
Leader	41.33%

Source: Factset/SSGA as of 31 Aug 2020



Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Apple Inc.	6.09%	6.09%	0.00%	84.52
Microsoft Corporation	5.13%	5.13%	0.00%	74.85
Amazon.com Inc.	4.35%	4.35%	0.00%	65.52
Facebook Inc. Class A	2.05%	2.05%	0.00%	59.50
Alphabet Inc. Class A	1.45%	1.43%	0.01%	59.90
Alphabet Inc. Class C	1.41%	1.42%	-0.01%	59.90
Johnson & Johnson	1.28%	1.28%	0.00%	72.36
Procter & Gamble Company	1.10%	1.10%	0.00%	70.37
Visa Inc. Class A	1.10%	1.10%	0.00%	71.16
NVIDIA Corporation	1.04%	1.04%	0.00%	78.99

Source: Factset/SSGA as of 31 Aug 2020

Top 5 R-Factor Ratings				
HP Inc.	0.09%	0.09%	0.00%	100.00
Cisco Systems Inc.	0.54%	0.55%	0.00%	96.15
Host Hotels & Resorts Inc.	0.02%	0.02%	0.00%	91.54
Accenture Plc Class A	0.47%	0.47%	0.00%	85.48
NIKE Inc. Class B	0.50%	0.50%	0.00%	85.28

Source: Factset/SSGA as of 31 Aug 2020

Bottom 5 R-Factor Ratings				
Live Nation Entertainment In...	0.02%	0.02%	0.00%	4.66
Lennar Corporation Class A	0.07%	0.07%	0.00%	6.93
D.R. Horton Inc.	0.08%	0.08%	0.00%	13.61
Constellation Software Inc.	0.07%	0.07%	0.00%	13.73
NVR Inc.	0.05%	0.04%	0.00%	15.48

Source: Factset/SSGA as of 31 Aug 2020

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

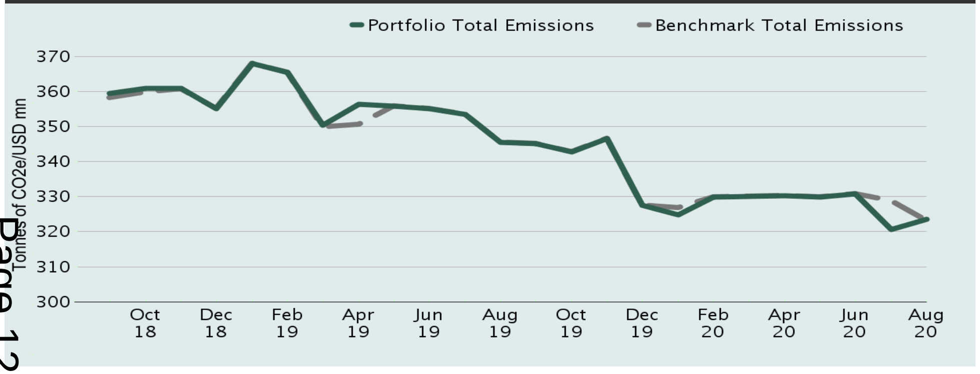
Climate Profile

As of 30 Sep 2020

MPF North America Equity Index Sub-Fund

Benchmark: FTSE World North America Net UK Tax Index

Carbon Intensity



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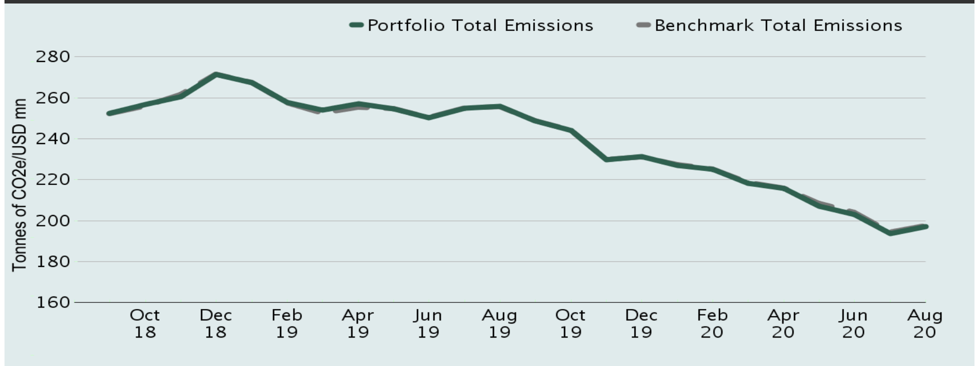
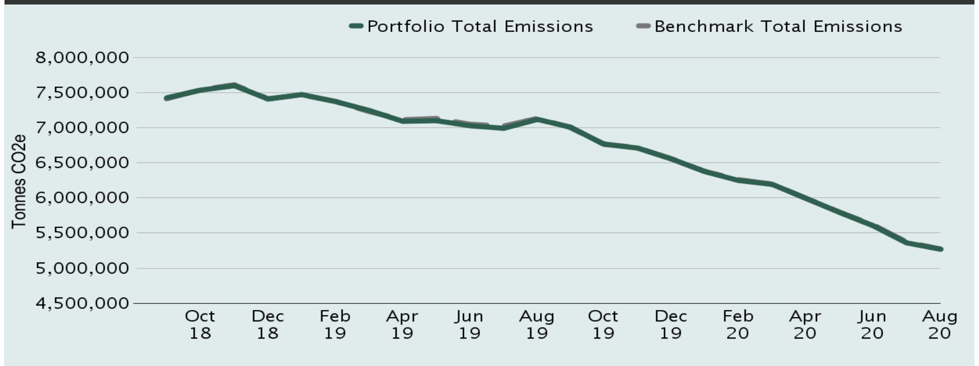
Source: TruCost/SSGA as of 31 Aug 2020

Weighted Average Carbon Intensity



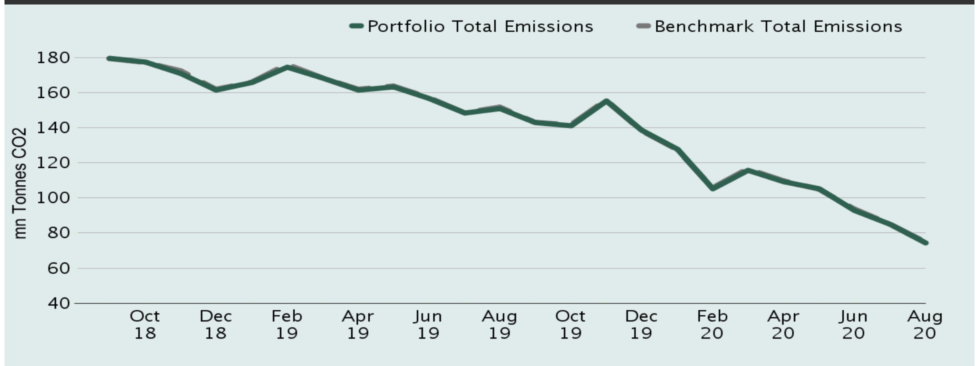
Source: TruCost/SSGA as of 31 Aug 2020

Scope 1+2 Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Total Reserves Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Stewardship Profile

As of 30 Sep 2020

MPF North America Equity Index Sub-Fund

Benchmark: FTSE World North America Net UK Tax Index

Stewardship Profile	Q2 2020
Number of Meetings Voted	571
Number of Countries	15
Management Proposals	6,852
Votes for	91.40%
Votes Against	8.60%
Shareholder Proposals	366
With Management	72.40%
Against Management	27.60%

Source: SSGA as of 30 Jun 2020

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Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

State Street Global Advisors' (SSGA) asset stewardship program is aimed at engaging with our portfolio companies on issues that impact long-term value creation across environmental, social and governance (ESG) considerations. In the recent past, SSGA has issued extensive guidance on key governance matters such as effective, independent board leadership. SSGA's current focus is on helping boards think about the possible impacts of environmental and social issues and incorporating a sustainability lens into boards' oversight of long-term strategy as a sound business practice.

Gender Diversity

Women on Board	Number of Securities
0	3
1	51
2	158
3	228
4	121
5	53
6	13
7	4
8	2
9	0
10	0
10+	0
Not Available	3
Total	**636**

Source: Factset/SSGA as of 31 Aug 2020

R-Factor™ Summary

As of 30 Sep 2020

MPF Japan Equity Index Sub-Fund

Benchmark: FTSE All-World Developed Japan Index

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	59.94	59.95	-0.01
ESG	58.34	58.34	0.00
Corporate Governance	65.87	65.88	-0.01

Source: SSGA as of 31 Aug 2020

What is R-Factor?

R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-inclass ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

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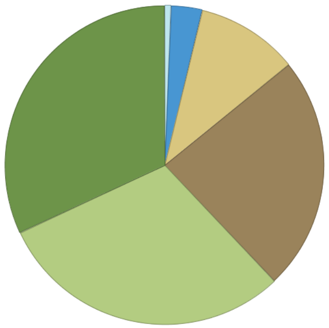
Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	493	95.54%	99.35%
Total Number of Securities in Portfolio	516		

Source: Factset/SSGA as of 31 Aug 2020

Fund R-Factor Profile	
Not Available	0.65%
Laggard	3.15%
Underperformer	10.38%
Average Performer	23.76%
Outperformer	30.11%
Leader	31.95%

Source: Factset/SSGA as of 31 Aug 2020



Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Toyota Motor Corp.	4.19%	4.20%	0.00%	69.53
Sony Corporation	2.40%	2.41%	-0.01%	82.13
SoftBank Group Corp.	2.34%	2.34%	-0.01%	55.48
Keyence Corporation	2.16%	2.17%	-0.01%	40.96
Nintendo Co. Ltd.	1.56%	1.56%	-0.01%	63.12
Daiichi Sankyo Company Li...	1.53%	1.51%	0.01%	70.16
Takeda Pharmaceutical Co....	1.40%	1.40%	-0.01%	78.85
Shin-Etsu Chemical Co Ltd	1.33%	1.34%	-0.01%	58.61
Recruit Holdings Co. Ltd.	1.28%	1.29%	-0.01%	67.45
Mitsubishi UFJ Financial Gr...	1.27%	1.28%	-0.01%	60.77

Source: Factset/SSGA as of 31 Aug 2020

Top 5 R-Factor Ratings				
Konica Minolta Inc.	0.03%	0.03%	0.00%	89.65
Kao Corp.	0.90%	0.91%	-0.01%	84.79
Sony Corporation	2.40%	2.41%	-0.01%	82.13
NEC Corp.	0.40%	0.40%	0.00%	79.46
Takeda Pharmaceutical Co....	1.40%	1.40%	-0.01%	78.85

Source: Factset/SSGA as of 31 Aug 2020

Bottom 5 R-Factor Ratings				
Relo Group Inc.	0.07%	0.06%	0.00%	0.00
SHO BOND Holdings Co. Lt...	0.06%	0.06%	0.00%	8.78
Sanrio Company Ltd.	0.03%	0.03%	0.00%	10.78
Iida Group Holdings Co. Ltd.	0.08%	0.07%	0.00%	11.55
SHIMAMURA Co. Ltd.	0.06%	0.05%	0.00%	14.52

Source: Factset/SSGA as of 31 Aug 2020

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

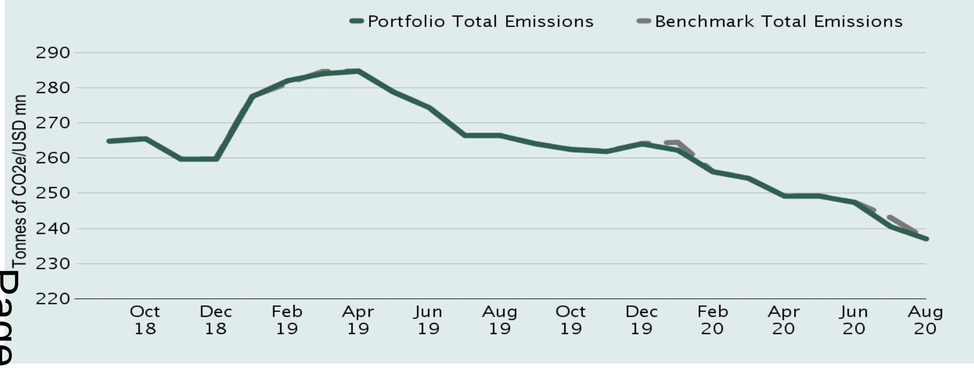
Climate Profile

As of 30 Sep 2020

MPF Japan Equity Index Sub-Fund

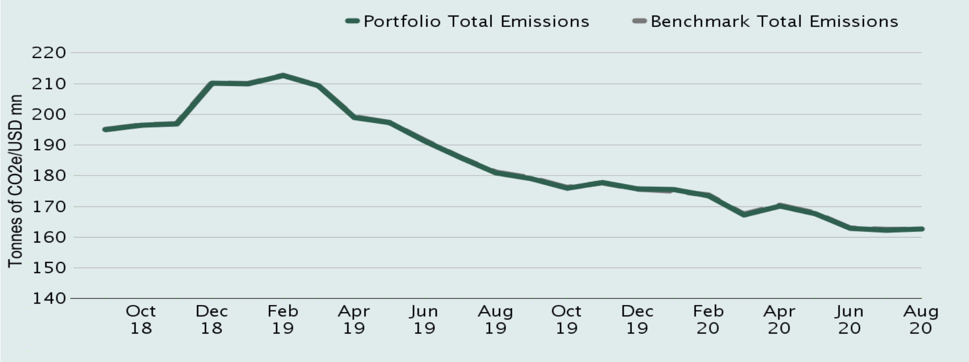
Benchmark: FTSE All-World Developed Japan Index

Carbon Intensity



Source: TruCost/SSGA as of 31 Aug 2020

Weighted Average Carbon Intensity



Source: TruCost/SSGA as of 31 Aug 2020

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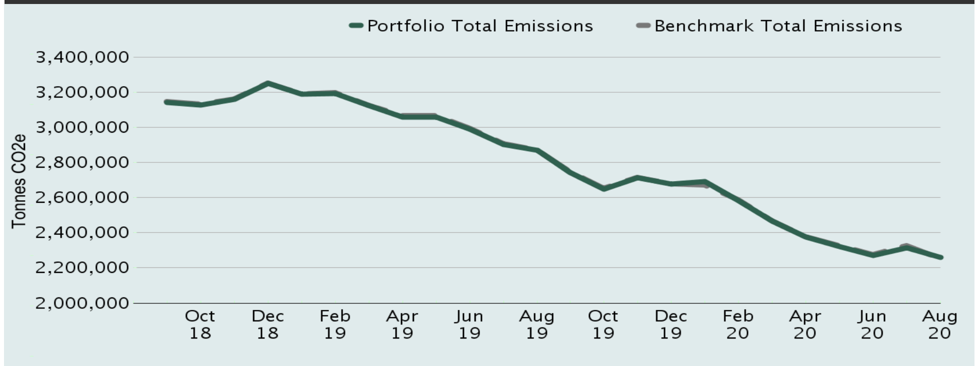
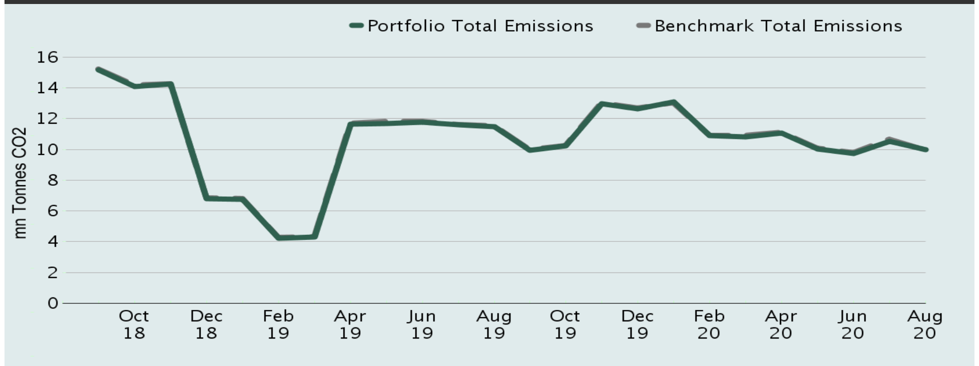
Scope 1+2 Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Total Reserves Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Stewardship Profile

As of 30 Sep 2020

MPF Japan Equity Index Sub-Fund

Benchmark: FTSE All-World Developed Japan Index

Stewardship Profile	Q2 2020
Number of Meetings Voted	455
Number of Countries	1
Management Proposals	5,449
Votes for	91.48%
Votes Against	8.52%
Shareholder Proposals	131
With Management	92.37%
Against Management	7.63%

Source: SSGA as of 30 Jun 2020

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Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

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Gender Diversity

Women on Board	Number of Securities
0	206
1	224
2	71
3	13
4	1
5	1
6	0
7	0
8	0
9	0
10	0
10+	0
Not Available	0
Total	**516**

Source: Factset/SSGA as of 31 Aug 2020

R-Factor™ Summary

As of 30 Sep 2020

MPF Asia Pacific ex Japan Equity Index Sub-Fund

Benchmark: FTSE All-World Developed Asia Pacific ex Japan Index

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	61.65	61.67	-0.02
ESG	61.50	61.52	-0.02
Corporate Governance	52.87	52.89	-0.02

Source: SSGA as of 31 Aug 2020

What is R-Factor?

R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-inclass ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

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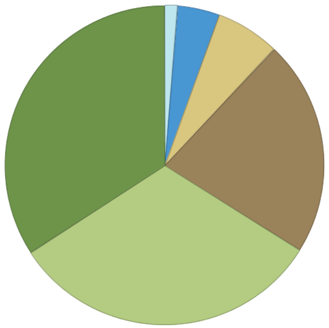
Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	375	94.94%	98.67%
Total Number of Securities in Portfolio	395		

Source: Factset/SSGA as of 31 Aug 2020

Fund R-Factor Profile	
Not Available	1.33%
Laggard	4.21%
Underperformer	6.50%
Average Performer	21.87%
Outperformer	31.90%
Leader	34.19%

Source: Factset/SSGA as of 31 Aug 2020



Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Samsung Electronics Co. Lt...	9.35%	9.31%	0.04%	81.40
AIA Group Limited	4.73%	4.72%	0.01%	70.44
CSL Limited	3.72%	3.74%	-0.02%	68.26
Commonwealth Bank of Aus...	3.22%	3.24%	-0.02%	68.63
BHP Group Ltd	3.00%	3.02%	-0.01%	79.15
Hong Kong Exchanges & Cl...	2.37%	2.36%	0.01%	64.23
Westpac Banking Corporati...	1.74%	1.75%	-0.01%	68.47
National Australia Bank Limi...	1.67%	1.68%	-0.01%	71.10
SK hynix Inc	1.48%	1.48%	0.01%	67.81
Wesfarmers Limited	1.44%	1.45%	-0.01%	61.01

Source: Factset/SSGA as of 31 Aug 2020

Top 5 R-Factor Ratings				
GPT Group	0.22%	0.22%	0.00%	93.54
Dexus	0.28%	0.28%	0.00%	88.45
COWAY Co. Ltd.	0.15%	0.15%	0.00%	82.76
Stockland	0.26%	0.26%	0.00%	82.57
Samsung Electronics Co. Lt...	9.35%	9.31%	0.04%	81.40

Source: Factset/SSGA as of 31 Aug 2020

Bottom 5 R-Factor Ratings				
KOREA INVESTMENT HOLD...	0.10%	0.09%	0.00%	0.00
KT & G Corporation	0.31%	0.31%	0.00%	9.08
GS Retail Co. Ltd.	0.03%	0.03%	0.00%	9.63
Hanssem Co. Ltd	0.04%	0.04%	0.00%	10.35
HOTEL SHILLA CO. LTD.	0.08%	0.08%	0.00%	12.22

Source: Factset/SSGA as of 31 Aug 2020

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

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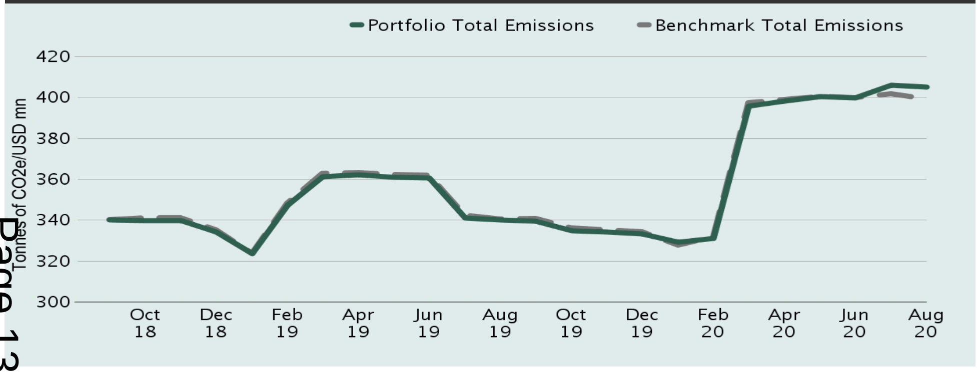
Climate Profile

As of 30 Sep 2020

MPF Asia Pacific ex Japan Equity Index Sub-Fund

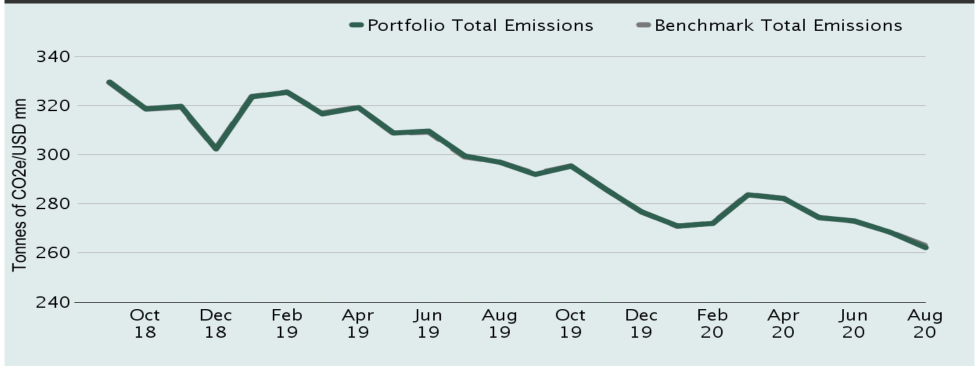
Benchmark: FTSE All-World Developed Asia Pacific ex Japan Index

Carbon Intensity



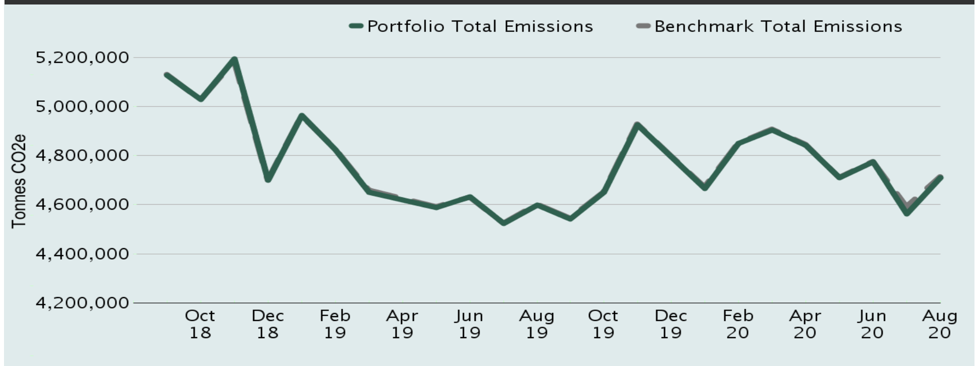
Source: TruCost/SSGA as of 31 Aug 2020

Weighted Average Carbon Intensity



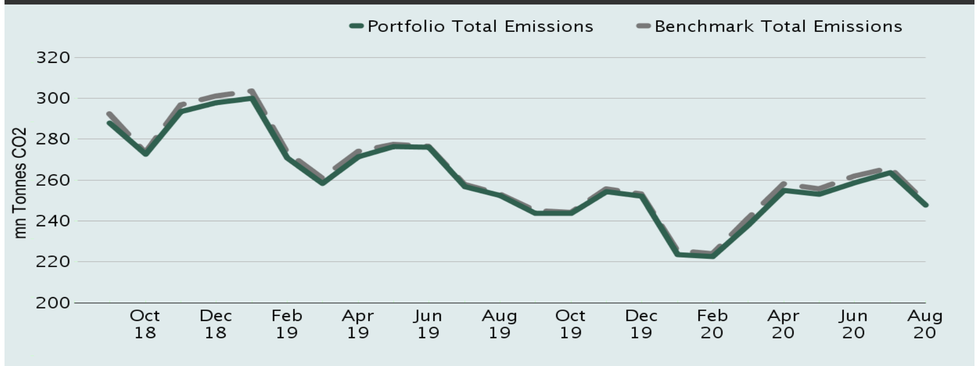
Source: TruCost/SSGA as of 31 Aug 2020

Scope 1+2 Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Total Reserves Carbon Emissions



Source: TruCost/SSGA as of 31 Aug 2020

Stewardship Profile

As of 30 Sep 2020

MPF Asia Pacific ex Japan Equity Index Sub-Fund

Benchmark: FTSE All-World Developed Asia Pacific ex Japan Index

Stewardship Profile	Q2 2020
Number of Meetings Voted	274
Number of Countries	12
Management Proposals	2,034
Votes for	83.78%
Votes Against	16.22%
Shareholder Proposals	45
With Management	86.67%
Against Management	13.33%

Source: SSGA as of 30 Jun 2020

Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

State Street Global Advisors' (SSGA) asset stewardship program is aimed at engaging with our portfolio companies on issues that impact long-term value creation across environmental, social and governance (ESG) considerations. In the recent past, SSGA has issued extensive guidance on key governance matters such as effective, independent board leadership. SSGA's current focus is on helping boards think about the possible impacts of environmental and social issues and incorporating a sustainability lens into boards' oversight of long-term strategy as a sound business practice.

Gender Diversity

Women on Board	Number of Securities
0	131
1	81
2	78
3	70
4	24
5	8
6	0
7	0
8	0
9	0
10	0
10+	0
Not Available	3
Total	**395**

Source: Factset/SSGA as of 31 Aug 2020

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Important Information

- R-Factor™ is an ESG scoring system that leverages commonly accepted materiality frameworks to generate a unique ESG score for listed companies. The score is powered by ESG data from four different providers in an effort to improve overall coverage and remove biases inherent in existing scoring methodologies. R-Factor™ is designed to put companies in the driver's seat to help create sustainable markets.

- R-Factor™ Scores are comparable across industries. The ESG and Corporate Governance (CorpGov) scores are designed to be based on issues that are material to a company's industry and regulatory region. A uniform grading scale allows for interpretation of the final company level score to allow for comparison across companies.

- Responsible-Factor (R Factor) scoring is designed by State Street to reflect certain ESG characteristics and does not represent investment performance. Results generated out of the scoring model is based on sustainability and corporate governance dimensions of a scored entity.

- The returns on a portfolio of securities which exclude companies that do not meet the portfolio's specified ESG criteria may trail the returns on a portfolio of securities which include such companies. A portfolio's ESG criteria may result in the portfolio investing in industry sectors or securities which underperform the market as a whole.

- The R-Factor™ scoring process comprises two underlying components. The first component is based on the framework published by the Sustainability Accounting Standards Board ("SASB"), which is used for all ESG aspects of the score other than those relating to corporate governance issues. The SASB framework attempts to identify ESG risks that are financially material to the issuer-based on its industry classification. This component of the R-Factor™ score is determined using only those metrics from the ESG data providers that specifically address ESG risks identified by the SASB framework as being financially material to the issuer-based on its industry classification.

- The second component of the score, the CorpGov score, is generated using region-specific corporate governance codes developed by investors or regulators. The governance codes describe minimum corporate governance expectations of a particular region and typically address topics such as shareholder rights, board independence and executive compensation. This component of the R-Factor™ uses data provided by ISS Governance to assign a governance score to issuers according to these governance codes.

- Within each industry group, issuers are classified into five distinct ESG performance groups based on which percentile their R-Factor™ scores fall into. A company is classified in one of the five ESG performance classes (Laggard - 10% of universe, Underperformer - 20% of universe, Average Performer - 40% of universe, Outperformer - 20% of universe or Leader - 10% of universe) by comparing the company's R-Factor™ score against a band. R-Factor™ scores are normally distributed using normalized ratings on a 0-100 rating scale.

- Discrepancy between the number of holdings in the R-Factor™ Summary versus the number of holdings in the regular reporting package may arise as the R-Factor™ Summary is counted based on number of issuers rather than number of holdings in the portfolio.

- For examples of public language regarding R-Factor see the ELR Registration Statement here: https://www.sec.gov/Archives/edgar/data/1107414/000119312519192334/d774617d497.html

- Carbon Intensity - Measured in Metric tons CO2e/USD millions revenues. The aggregation of operational and first-tier supply chain carbon footprints of index constituents per USD (equal weighted).

- Weighted Average Carbon Intensity - Measured in Metric tons CO2e/USD millions revenues. The weighted average of individual company intensities (operational and first-tier supply chain emissions over revenues), weighted by the proportion of each constituent in the index.

- Scope 1+2 Carbon Emissions- Measured in Metric Tons of CO_2e.The GHG emissions from operations that are owned or controlled by the company, as well as GHG emissions from consumption of purchased electricity, heat or steam, by the company

- Total Reserves CO_2 Emissions - Measured in Metric tons of CO_2. The carbon footprint that could be generated if the proven and probable fossil fuel reserves owned by index constituents were burned per USD million invested. Unlike carbon intensity and carbon emissions, the S&P Trucost Total Reserves Emissions metric is a very specific indicator that is only applicable to a very selected number of companies in extractive and carbon-intensive industries. Those companies are assigned Total Reserves Emissions numerical results by Trucost, whereas the rest of the holdings in other industries do not have numerical scores and are instead displaying "null", blank values. In order to present a more comprehensive overview of a portfolio's overall weighted average fossil fuel reserves, State Street Global Advisors replaces blank results with "zeros". While that might slightly underestimate the final weighted average volume, it provides a more realistic result, given that most companies in global indices have no ownership of fossil fuel reserves.

- We are currently using FactSet's own "People" dataset to disclose the number of women on the board, for each company in the Fund's portfolio.

- Data and metrics have been sourced as follows from the following contributors as of the date of this report, and are subject to their disclosures below. All other data has been sourced by SSGA.

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- All valuations are based on Trade Date accounting.
- Performance figures are calculated 'Gross of Fees' unless otherwise stated.
- Returns are annualised for periods greater than one year.
- Returns are calculated using the accrual accounting method.
- Performance figures are calculated by the Modified Dietz method or by the True Time-Weighted return method.
- Past performance is not necessarily indicative of future investment performance.
- Performance returns greater than one year are calculated using a daily annualisation formula. Returns for the same time period based on other formulas, such as monthly annualisation, may produce different results.
- The account summary page details the opening balance at the start of the reporting period which is the equivalent of the closing balance of the previous reporting period.
- If you are invested into any pooled fund or common trust fund, it may use over-the-counter swaps, derivatives or a synthetic instrument (collectively "Derivatives") to increase or decrease exposure in a particular market, asset class or sector to effectuate the fund's strategy. Derivatives agreements are privately negotiated agreements between the fund and the counterparty, rather than an exchange, and therefore Derivatives carry risks related to counterparty creditworthiness, settlement default and market conditions. Derivatives agreements can require that the fund post collateral to the counterparty consistent with the mark-to-market price of the Derivative. SSGA makes no representations or assurances that the Derivative will perform as intended.
- If you are invested in an SSGA commingled fund or common trust fund that participates in State Street's securities lending program (each a "lending fund"), the Fund participates in an agency securities lending program sponsored by State Street Bank and Trust Company (the "lending agent") whereby the lending agent may lend up to 100% of the Fund's securities, and invest the collateral posted by the borrowers of those loaned securities in collateral reinvestment funds (the "Collateral Pools"). The Collateral Pools are not registered money market funds and are not guaranteed investments. The Fund compensates its lending agent in connection with operating and maintaining the securities lending program. SSGA acts as investment manager for the Collateral Pools and is compensated for its services. The Collateral Pools are managed to a specific investment objective as set forth in the governing documents for the Collateral Pools. For more information regarding the Collateral Pool refer to the "US Cash Collateral Strategy Disclosure Document." Securities lending programs and the subsequent reinvestment of the posted collateral are subject to a number of risks, including the risk that the value of the investments held in the Collateral Pool may decline in value, be sold at a loss or incur credit losses. The net asset value of the Collateral Pool is subject to market conditions and will fluctuate and may decrease in the future. More information on the securities lending program and on the Collateral Pools, including the "US Cash Collateral Strategy Disclosure Document" and the current mark to market unit price are available on Client's Corner and also available upon request from your SSGA Relationship Manager.
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- If you are invested in a Luxembourg sub-fund applying swing pricing (as set out in the prospectus of the SSGA Luxembourg SICAV, the "Prospectus"), performance of the fund is calculated on an unswung pricing basis, however, the fund price quoted and your mandate's return may be adjusted to take into consideration any Swing Pricing Adjustment (as defined in the Prospectus) . Please refer to the Prospectus for further information.

- The Net performance returns reflected in the Performance Summary report is from Jan 2020 reporting onwards.

FAQ
Index

July 2020

ESG-Related Changes to Managed Pension Fund (MPF) Index Funds

STATE STREET GLOBAL ADVISORS

Contents

SSGA's ESG Beliefs

At State Street Global Advisors, our mission is to invest responsibly to enable economic prosperity and social progress. Our capabilities in environmental, social, and governance (ESG) investing are core to helping us achieve this mission.

The five core beliefs that influence our approach are:

1. Research shows that ESG factors can impact a company's **long-term performance**.
2. We are committed to the full integration of material ESG factors into our investment processes.
3. Accurately measuring material ESG factors requires access to quality **data from multiple sources**.
4. We practice **asset stewardship** by actively using our voice and vote to engage with portfolio companies on material ESG factors.
5. We provide investors **choices** to invest based on their own values and preferences.

What is happening and why?

After discussions with many of our institutional clients within the region, SSGA has taken the decision to exclude UN Global Compact (UNGC) violators and controversial weapons companies from some of our Managed Pension Fund (MPF) index funds. This subset of funds includes both equity and fixed income index funds.

This initiative is driven by our research on client needs and our view on European market trends — both of which indicate that investors no longer want exposure to certain corporate behaviours in their core portfolios.

What funds are in scope?

Within the MPF range there are 12 core index equity funds, 3 core index bond funds, and 27 associated funds.

Equity Funds:

- North America Equity Index
- Asia Pacific ex Japan Equity Index
- Middle East and Africa Equity Index
- Europe ex UK Equity Index
- Advanced Emerging Markets Equity Index
- All World Developed Equity Index
- All World Equity Index
- Emerging Markets Equity Index
- International Equity Index
- Japan Equity Index
- UK Equity Index
- World UK Equity Index

Fixed Income Funds

- Sterling Corporate Bond All Stocks Index Sub-Fund
- Sterling Non-Gilts Bond All Stocks Index Sub-Fund
- Sterling Non-Gilts Bond Over 15 Years Index Sub-Fund

Associated Funds

Fund of funds and hedged share classes associated with the funds listed above will also reflect the changes covered in this document. A full list of the in-scope funds is included in the appendix.

Will the fund names change?

Yes. The names of the impacted funds are being updated to include *ESG Screened*. This amendment is being made to make transparent to investors that a screen is being applied to the original investment universe of the fund to screen out securities based on ESG criteria.

Will the benchmarks change?

Equity Index Funds The funds will switch to amended versions of the existing FTSE indexes that screen out securities as described below. Exclusions are made by FTSE at the index level.

Fixed Income Index Funds The funds will continue with their existing benchmarks. The portfolio manager will continue to manage the funds on a stratified sampled basis, but will be prevented from selecting securities that appear on the screened list as described below.

A full list of the new benchmarks for the equity funds is included in the appendix.

Tell me more about the screens being implemented.

Many investors view exclusionary ESG screening as both an easy and effective approach towards ESG investing. Additionally, for many investors it is a logical first step towards employing an ESG investment policy.

Within the field of exclusions, violators of global norms (such as UNGC violators) as well as companies involved in controversial business areas in general, and controversial weapons in particular, can be identified as mandatory exclusions for increasing numbers of investors.

How does the screening work?

Equity Funds

For the MPF equity funds in scope, a benchmark change will be made. The third-party index provider, FTSE, will employ the exclusion criteria based on their methodologies.

Exclusion Criteria

- Controversies/Breach of UN Global Compact Principles
- Controversial Weapons

Providers:

- To identify the companies to be excluded, **FTSE Russell** uses data from **Sustainalytics** and **Reprisk**, in addition to their own internal data sources.
- For UNGC violators FTSE uses both RepRisk and Sustainalytics
- For controversial weapons companies FTSE uses both Sustainalytics as well as their own research .

Fixed Income Funds

Unlike for the equity funds, the exclusions for the Fixed Income funds are at the fund level, meaning that they are made by SSGA, while the benchmark is left unchanged.

SSGA's own proprietary exclusions approach for the topics in scope is used (as opposed to the equity funds, where the third-party index provider is executing the exclusions and the benchmark is changed accordingly).

Exclusion Criteria

- Breach of UN Global Compact Principles
- Controversial Weapons

Providers

- For the Fixed Income funds we use our **own proprietary screening approach using both Sustainalytics and MSCI data.**
- For UNGC violations we use Sustainalytics only.
- For controversial weapons we combine Sustainalytics and MSCI data

Can you tell me more about the impact in each fund?

Equity Funds

The table below highlights the number of companies that will be excluded in the new screened indexes and the percentage of the parent, market cap-weighted index that would be excluded.

Fund Name	Number of Companies excluded	% of Parent Index Excluded
FTSE All World ex Controversies ex CW Index	93	3.97
FTSE Developed ex Controversies ex CW Index	43	4.07
FTSE Emerging ex Controversies ex CW index	50	3.16
FTSE Advanced Emerging ex Controversies ex CW index	13	5.63
FTSE World ex UK ex Controversies ex CW Index	52	3.94
FTSE All Share ex Controversies ex CW Index	90	8.12
FTSE UK ex Controversies ex CW Index	4	8.15
FTSE Developed Europe ex UK ex Controversies ex CW Index	7	3.93
FTSE North America ex Controversies ex CW Index	18	4.26
FTSE Japan ex Controversies ex CW Index	3	0.56
FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index	9	4.07
FTSE Developed Middle East and Africa ex Controversies ex CW Index	2	6.89

Source: FTSE, as at 30 June 2020. The impact to funds that invest in the funds above (fund of funds) will be proportionate to their weighting in each fund.

The table below highlights the impact of the screens on performance and tracking error between the screened and parent (unscreened) index.

	Performance Data (Annualised %)						Tracking Error % (ex post)	
Fund Name	1yr Perf (Screened)	1yr Perf (Parent)	3yr Perf (Screened)	3yr Perf (Parent)	5yr Perf (Screen)	5yr Perf (Parent)	3yr (Annualised)	5yr (Annualised)
FTSE All World ex Controversies ex CW Index	6.77	5.72	8.67	8.38	12.47	12.28	0.34	0.38
FTSE Developed ex Controversies ex CW Index	7.42	6.47	9.14	8.85	12.92	12.76	0.33	0.36
FTSE Emerging ex Controversies ex CW index	1.50	-0.36	4.88	4.56	8.37	8.02	0.83	0.87
FTSE Advanced Emerging ex Controversies ex CW index	-6.37	-8.37	1.07	1.34	6.26	6.37	1.45	1.49
FTSE World ex UK ex Controversies ex CW Index	7.74	6.97	9.32	9.13	13.23	13.11	0.30	0.33
FTSE All Share ex Controversies ex CW Index	-9.84	-12.99	-1.14	-1.56	2.62	2.87	1.34	1.76
FTSE UK ex Controversies ex CW Index	-10.10	-13.81	-1.37	-1.80	2.43	2.78	1.57	2.06
FTSE Developed Europe ex UK ex Controversies ex CW Index	0.63	0.70	3.23	3.83	8.54	8.92	0.51	0.44
FTSE North America ex Controversies ex CW Index	11.95	10.91	13.05	12.47	16.19	15.84	0.35	0.37
FTSE Japan ex Controversies ex CW Index	6.85	6.76	4.84	4.87	9.00	9.03	0.17	0.21
FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index	-5.27	-5.37	1.65	2.18	8.32	8.69	0.78	0.79
FTSE Developed Middle East and Africa ex Controversies ex CW Index	-7.42	-7.70	-5.23	-5.02	-2.17	-2.05	0.60	0.52

Source: FTSE, as at 30 June 2020. Performance of gross index. The impact to funds that invest in the funds above (fund of funds) will be proportionate to their weighting in each fund.

Can you tell me more about the impact in each fund? (Contd.)

Fixed Income Funds

The table below highlights the number of companies that will be included in the new screened opportunity set vs the market cap-weighted index.

Current Fund Name	Number of Issuers (Before/After)	% of Parent Index Excluded	Tracking Error Before	Tracking Error After	Difference
Sterling Corporate Bond All Stocks Index Sub-Fund	337/317	3.3	7.8bp	14.2bp	6.4bp
Sterling Non-Gilts Bond All Stocks Index Sub-Fund	436/426	2.1	5.0bp	10.7bp	5.7bp
Sterling Non-Gilts Bond Over 15 Years Index Sub-Fund	172/169	1.1	12.2bp	20.4bp	8.2bp

Source: SSGA, as of 28 January 2020. Tracking error figures are estimates and may be subject to change. The impact to funds that invest in the funds above (fund of funds) will be proportionate to their weighting in each fund.

How and when will these changes be implemented?

We will be implementing this change at the end of the four month notice period on 18 November 2020.

Our portfolio managers and traders will be working close together to implement the change in the most cost-efficient manner.

This may involve trading over several days to minimize market impact and/or it may involve the use of our internal liquidity pool to reduce costs. The exact composition and timing of the trade will be influenced by the prevailing market conditions, fund sizes, client activity and any possible index changes that may be planned around the effective date of the change.

How will this affect your reporting of performance?

Equity Funds

From a performance reporting perspective, we will link the prior index with the new index at the time of the change. This means that going forward the benchmark performance shown will be the performance of the new screened indexes. There will not be a restatement of past performance.

Fixed Income Funds

No change.

Why has there been a change to tax treatment for equity benchmarks? What is the impact?

The existing FTSE benchmarks used by the funds in the MPF were a custom tax variant created to reflect the estimated net tax rates of a UK pension fund. The returns reported for these indexes differed slightly from the standard FTSE net tax indexes making reconciliation more difficult. The new benchmarks will follow the standard FTSE net tax methodology.

Will it change SSGA's approach to stewardship?

No. From a stewardship perspective, we engage with companies and we vote on the totality of our global book of business.

We have seen a commonality in investors' exclusions requirements but some differences remain. This means that although we will not own these companies in some of the MPF funds, we may still own them in other funds and segregated mandates. Since we remain a shareholder of these companies, we will retain the access and the ability to vote and we will have the opportunity to engage and encourage change where needed.

Appendix

Current Fund Name	New Fund Name	Current Benchmark	New Benchmark
North America Equity Index Sub-Fund	North America ESG Screened Index Equity Sub Fund	FTSE World North America Index	FTSE North America ex Controversies ex CW Index
Asia Pacific ex Japan Equity Index Sub-Fund	Asia Pacific ex Japan ESG Screened Index Equity Sub Fund	FTSE Developed Asia Pacific ex Japan Index	FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index
Middle East and Africa Equity Index Sub-Fund	Middle East and Africa ESG Screened Index Equity Sub Fund	FTSE Developed Middle East and Africa Index	FTSE Developed Middle East and Africa ex Controversies ex CW Index
Europe ex UK Equity Index Sub-Fund	Europe ex UK ESG Screened Index Equity Sub-Fund	FTSE Developed Europe ex UK Index	FTSE Developed Europe ex UK ex Controversies ex CW Index
Advanced Emerging Markets Equity Index Sub-Fund	Advanced Emerging Markets ESG Screened Index Equity Sub-Fund	FTSE Advanced Emerging Index	FTSE Advanced Emerging ex Controversies ex CW Index
All World Developed Equity Index Sub-Fund	All World Developed ESG Screened Index Equity Sub Fund	FTSE Developed Index	FTSE Developed ex Controversies ex CW Index
All World Equity Index Sub-Fund	All World ESG Screened Index Equity Sub-Fund	FTSE All World Index	FTSE All World ex Controversies ex CW Index
Emerging Markets Equity Index Sub-Fund	Emerging Markets ESG Screened Index Equity Sub Fund	FTSE Emerging Index	FTSE Emerging ex Controversies ex CW Index
International Equity Index Sub-Fund	International ESG Screened Index Equity Sub-Fund	FTSE World ex UK Index	FTSE World ex UK ex Controversies ex CW Index
Japan Equity Index Sub-Fund	Japan ESG Screened Index Equity Sub-Fund	FTSE Japan Index	FTSE Japan ex Controversies ex CW Index
UK Equity Index Sub-Fund	UK ESG Screened Index Equity Sub-Fund	FTSE All-Share Index	FTSE All-Share Index ex Controversies ex CW Index
World UK Equity Index Sub-Fund	UK World ESG Screened Index Equity Sub-Fund	FTSE UK Index	FTSE UK ex Controversies ex CW Index
Sterling Corporate Bond All Stocks Index Sub-Fund	Sterling Corporate Bond All Stocks ESG Screened Index Sub-Fund	No change	N/A
Sterling Non-Gilts Bond All Stocks Index Sub-Fund	Sterling Non-Gilts Bond All Stocks ESG Screened Index Sub-Fund	No change	N/A
Sterling Non-Gilts Bond Over 15 Years Index Sub-Fund	Sterling Non-Gilts Bond Over 15 Years ESG Screened Index Sub-Fund	No change	N/A
All World Developed Equity Hedged Target Volatility Sub-Fund	All World Developed ESG Screened Equity Hedged Target Volatility Sub-Fund	90% FTSE World Developed Index, with 50% of the non-Sterling currency exposure hedged back to Sterling, 10% GBP 7-Day LIBID (Sterling London Interbank 7-day deposit rate)	90% FTSE Developed ex Controversies ex CW Index, with 50% of the non-Sterling currency exposure hedged back to Sterling, 10% GBP 7 Day LIBID (Sterling London Interbank 7-day deposit rate)
Emerging Markets Equity Target Volatility Sub-Fund	Emerging Markets ESG Screened Equity Target Volatility Sub-Fund	90% FTSE Emerging Index, 10% GBP 7-Day LIBID (Sterling London Interbank 7-day deposit rate)	90% FTSE Emerging ex Controversies ex CW Index, 10% GBP 7-Day LIBID (Sterling London Interbank 7 day deposit rate)
Global Equity (50/50) Index Sub-Fund	Global (50/50) ESG Screened Index Equity Sub Fund	50% FTSE All-Share Index, 16.7% FTSE World North America Index, 16.7% FTSE Developed Europe ex UK Index, 8.3% FTSE Japan Index, 8.3% FTSE Developed Asia Pacific ex Japan Index	50% FTSE All-Share ex Controversies ex CW Index, 16.7% FTSE North America ex Controversies ex CW Index, 16.7% FTSE Developed Europe ex UK ex Controversies ex CW Index, 8.3% FTSE Japan ex Controversies ex CW Index, 8.3% FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index
As Of Priced (Net) All World Developed Equity Index Sub-Fund	As Of Priced (Net) All World Developed ESG Screened Index Equity Sub-Fund	FTSE Developed Index	FTSE Developed ex Controversies ex CW Index
As Of Priced (Net) Emerging Markets Equity Index Sub-Fund	As Of Priced (Net) Emerging Markets ESG Screened Index Equity Sub-Fund	FTSE Emerging Index	FTSE Emerging ex Controversies ex CW Index
As Of Priced All World Equity Index Sub-Fund	As Of Priced All World ESG Screened Index Equity Sub Fund	FTSE All World Index	FTSE All World ex Controversies ex CW Index
As Of Priced (Net) International Equity Index Sub-Fund	As Of Priced (Net) International ESG Screened Index Equity Sub-Fund	FTSE World ex UK Index	FTSE World ex UK ex Controversies ex CW Index

Current Fund Name	New Fund Name	Current Benchmark	New Benchmark
As Of Priced (Net) UK Equity Index Sub-Fund	As Of Priced (Net) UK ESG Screened Index Equity Sub Fund	FTSE All-Share Index	FTSE All-Share ex Controversies ex CW Index
Net UK Equity Index Sub-Fund	Net UK ESG Screened Index Equity Sub-Fund	FTSE All-Share Index	FTSE All-Share ex Controversies ex CW Index
As Of Priced (Net) Sterling Non-Gilts Bond All Stocks Index Sub-Fund	As Of Priced (Net) Sterling Non-Gilts Bond All Stocks ESG Screened Index Sub Fund	No change	N/A
North America Equity (100% Hedged) Index Sub-Fund	North America (100% Hedged) ESG Screened Index Equity Sub-Fund	FTSE World North America, with 100% of the non-Sterling currency exposure hedged back to Sterling	FTSE World North America ex Controversies ex CW Index, with 100% of the non-Sterling currency exposure hedged back to Sterling
Asia Pacific ex Japan Equity (100% Hedged) Index Sub-Fund	Asia Pacific ex Japan (100% Hedged) ESG Screened Index Equity Sub-Fund	FTSE Developed Asia Pacific ex Japan, with 100% of the non-Sterling currency exposure hedged back to Sterling	FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index, with 100% of the non-Sterling currency exposure hedged back to Sterling
Europe ex UK Equity (100% Hedged) Index Sub-Fund	Europe ex UK (100% Hedged) ESG Screened Index Equity Sub-Fund	FTSE Developed Europe ex UK, with 100% of the non-Sterling currency exposure hedged back to Sterling	FTSE Developed Europe ex UK ex Controversies ex CW Index, with 100% of the non-Sterling currency exposure hedged back to Sterling
International Equity (100% Hedged) Index Sub-Fund	International (Developed 100% Hedged) ESG Screened Index Equity Sub Fund	FTSE World ex UK, with 100% of the non-Sterling currency exposure hedged back to Sterling	FTSE World ex UK ex Controversies ex CW Index, with 100% of the non-Sterling currency exposure hedged back to Sterling
Japan Equity (100% Hedged) Index Sub-Fund	Japan (100% Hedged) ESG Screened Index Equity Sub Fund	FTSE Japan, with 100% of the non-Sterling currency exposure hedged back to Sterling	FTSE Japan ex Controversies ex CW Index, with 100% of the non-Sterling currency exposure hedged back to Sterling
North America Equity (50% Hedged) Index Sub-Fund	North America (50% Hedged) ESG Screened Index Equity Sub-Fund	FTSE World North America, with 50% of the non-Sterling currency exposure hedged back to Sterling	FTSE World North America ex Controversies ex CW Index, with 50% of the non-Sterling currency exposure hedged back to Sterling
North America Equity (75% Hedged) Index Sub-Fund	North America (75% Hedged) ESG Screened Index Equity Sub-Fund	FTSE World North America, with 75% of the non-Sterling currency exposure hedged back to Sterling	FTSE World North America ex Controversies ex CW Index, with 75% of the non-Sterling currency exposure hedged back to Sterling
Asia Pacific ex Japan Equity (50% Hedged) Index Sub-Fund	Asia Pacific ex Japan (50% Hedged) ESG Screened Index Equity Sub-Fund	FTSE Developed Asia Pacific ex Japan, with 50% of the non-Sterling currency exposure hedged back to Sterling	FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index, with 50% of the non-Sterling currency exposure hedged back to Sterling
Asia Pacific ex Japan Equity (75% Hedged) Index Sub-Fund	Asia Pacific ex Japan (75% Hedged) ESG Screened Index Equity Sub-Fund	FTSE Developed Asia Pacific ex Japan, with 75% of the non-Sterling currency exposure hedged back to Sterling	FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index, with 75% of the non-Sterling currency exposure hedged back to Sterling
Europe ex UK Equity (50% Hedged) Index Sub-Fund	Europe ex UK (50% Hedged) ESG Screened Index Equity Sub-Fund	FTSE Developed Europe ex UK, with 50% of the non-Sterling currency exposure hedged back to Sterling	FTSE Developed Europe ex UK ex Controversies ex CW Index, with 50% of the non-Sterling currency exposure hedged back to Sterling
Europe ex UK Equity (75% Hedged) Index Sub-Fund	Europe ex UK (75% Hedged) ESG Screened Index Equity Sub-Fund	FTSE Developed Europe ex UK, with 75% of the non-Sterling currency exposure hedged back to Sterling	FTSE Developed Europe ex UK ex Controversies ex CW Index, with 75% of the non-Sterling currency exposure hedged back to Sterling
Net Global Equity (50/50) (Developed 50% Hedged) Index Sub-Fund	Net Global (50/50) (Developed 50% Hedged) ESG Screened Index Equity Sub-Fund	50% FTSE All-Share Index, 50% FTSE World ex UK Index with 50% of the non-Sterling currency exposure hedged back to Sterling	50% FTSE All-Share ex Controversies ex CW Index, 50% FTSE World ex UK ex Controversies ex CW Index with 50% of the non-Sterling currency exposure hedged back to Sterling
International Equity (50% Hedged) Index Sub-Fund	International (Developed 50% Hedged) ESG Screened Index Equity Sub-Fund	FTSE World ex UK, with 50% of the non-Sterling currency exposure hedged back to Sterling	FTSE World ex UK ex Controversies ex CW Index, with 50% of the non-Sterling currency exposure hedged back to Sterling
International Equity (75% Hedged) Index Sub-Fund	International (Developed 75% Hedged) ESG Screened Index Equity Sub-Fund	FTSE World ex UK, with 75% of the non-Sterling currency exposure hedged back to Sterling	FTSE World ex UK ex Controversies ex CW Index, with 75% of the non-Sterling currency exposure hedged back to Sterling

Current Fund Name	New Fund Name	Current Benchmark	New Benchmark
International Equity (GBP Dynamic Currency Hedged) Index Sub-Fund	International (GBP Dynamic Currency Hedged) ESG Screened Index Equity Sub Fund	FTSE World ex UK Index, 50% hedged to Sterling	FTSE World ex UK ex Controversies ex CW Index, 50% hedged to Sterling
Japan Equity (50% Hedged) Index Sub-Fund	Japan (50% Hedged) ESG Screened Index Equity Sub Fund	FTSE Japan, with 50% of the non-Sterling currency exposure hedged back to Sterling	FTSE Japan ex Controversies ex CW Index, with 50% of the non-Sterling currency exposure hedged back to Sterling
Japan Equity (75% Hedged) Index Sub-Fund	Japan (75% Hedged) ESG Screened Index Equity Sub Fund	FTSE Japan, with 75% of the non-Sterling currency exposure hedged back to Sterling	FTSE Japan ex Controversies ex CW Index, with 75% of the non-Sterling currency exposure hedged back to Sterling

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Assumptions and forecasts used by SSGA in developing the Portfolio's asset allocation glide path may not be in line with future capital market returns and participant savings activities, which could result in losses near, at or after the target date year or could result in the Portfolio not providing adequate income at and through retirement.

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Responsible Investment (RI) /Environmental Social Governance (ESG) Summary

Backdrop

There are multiple providers of ESG/RI market data competing to become the system of choice, all with slightly different approaches and applying different weightings to E, S and G criteria.

This gives rise to providers assessing and rating companies differently - and inevitably results in individual companies being rated differently by providers. Exclusions are not part of the standard screening product offered, tending to be an add on if required. Exclusion lists themselves are not consistent between ESG providers either and hence can vary between index providers.

All data, and ratings, are backward-looking and tend to be reviewed on an annual basis. This means that sometimes ratings can still reflect issues from previous years and are not necessarily reflective of current or changing behaviours.

Broad categorisations may sometimes not make allowance for cultural differences or local political and regulatory conditions.

Further, it is worth noting that RI/ESG investing comes with a potential performance benefit or cost.

Exclusion-based Indices (Passive approach) vs Active ESG/RI Process

As exclusion-based indices are typically determined by one provider, they may be somewhat narrowly focused. As noted earlier, these are backward-looking and not reflective of changing behaviour. They are also often subject to higher turnover, as these changing behaviours feed through to ratings over time.

Conversely, active approaches can be informed by a number of different sources - and further refined through fundamental analysis and assessment of current behaviour. Judgement calls can be layered into the process to reflect current/future direction of behaviour.

Active approaches with moderate risk budgets (such as Border to Coast's internally-managed equity funds) assess companies based on their behaviour/impact relative to sector peers.

An active approach allows for engagement with a company to try to drive improvement in behaviour and practices.

Border to Coast's approach.

Our approach is to incorporate ESG factors into our investment analysis and decision making, enabling long-term sustainable investment performance. We employ both top-down screening and fundamental analysis in our approach to ESG, and we consider portfolio exposures in aggregate as well as individual company positions.

We use a number of different ESG focused information sources - including Morgan Stanley Capital International (MSCI), RepRisk, Sustainability Accounting Standards Board (SASB), Bloomberg, Transition Pathway Initiative (TPI) – as well as external research providers who incorporate ESG issues into their fundamental investment research. As such we ensure that we have a more rounded set of inputs to inform and direct our own fundamental analysis of a company and its ESG profile. This allows us to assess the ESG risks and opportunities for a company and industry. We consider ESG issues from the point of view of opportunities as well as risks.

There may be apparent conflict between some of the positions we hold and those that appear on exclusion lists from certain providers. When conducting research and analysis we will assess whether a company has either already changed behaviours, or is in the process of changing, and if those changes will be reflected in improved ESG outcomes and ratings in due course. We also consider how a company compares to its peer group and how over time industry practices will improve. (For instance, the Transition Pathway Initiative on carbon issues, or the Tailings Dam Initiative within the mining industry).

We consider engagement to be an effective tool in improving ESG behaviour at target companies but are also conscious that engagement will not always be successful e.g. Exxon.

Where we cannot see these changes taking place, we will consider selling a holding. **Kepco**, which appears on the State Street exclusion list, is one such company. We made the decision to sell our position as, in our opinion and based on our analysis, there was no visible pathway or commitment to improving the ESG outcome. **Exxon** is another example of a company which was sold on ESG grounds.

November 2020

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

PENSION FUND COMMITTEE REPORT

9 DECEMBER 2020

DIRECTOR OF FINANCE – IAN WRIGHT

LGPS – NATIONAL KNOWLEDGE ASSESSMENT

1. PURPOSE OF THE REPORT

1.1 To provide Members with information about the Local Government Pension Scheme (LGPS) National Knowledge Assessment facilitated by consultants Hymans Robertson and to ask Members to agree that they and Members of the Teesside Pension Board ('the Board') should undertake this assessment.

2. **RECOMMENDATION**

2.1 That Members agree

- to participate in the Local Government Pension Scheme (LGPS) National Knowledge Assessment facilitated by consultants Hymans Robertson, to help assess the Committee's collective relevant LGPS knowledge with a view to facilitating targeted training to meet any training needs identified.
- to include the members of the Teesside Pension Board in the assessment process, in line with the Board's request at its 2 November 2020 meeting.

3. **FINANCIAL IMPLICATIONS**

3.1 The cost of participating in the National Knowledge Assessment is £5,000 plus VAT. Assuming full participation by the Committee and Board this equates to around £240 a person.

4. **BACKGROUND**

4.1 In January 2019 the LGPS Scheme Advisory Board ("SAB") commissioned Hymans Robertson to assist in delivering a review of governance across the LGPS. This review was termed the 'Good Governance' project. This review recognised the Pension Regulator's ("TPR") push to increase governance and administration standards in pension schemes, including public service pension schemes, for which it has oversight responsibility.

4.2 TPR's sustained push to increase governance standards at LGPS funds can be traced through its:

- Code of Practice 14 document – which sets out the expectations, roles and responsibilities of the officers, decision makers (Committee) and Pension Board as regards to governance and administration standards
- 21st Century Trustee campaign – launched in summer 2019 and designed to raise the standards of those responsible for pension schemes
- 2018/2019 'deep dive' into 10 LGPS funds – 10 funds of varying sizes were chosen and assessed based on the main components of the Code of Practice 14.

4.3 The purpose of the SAB Good Governance review was to examine existing governance arrangements and consider ways in which gaps could be identified and addressed, good practice shared more widely, and greater transparency provided. The SAB was clear that only recommendations that retained a link with local democratic accountability were to be considered.

4.4 Following Hymans Robertson's review, proposals were set out in 6 main areas (see Appendix A for detail and proposals relating to the below areas):

- General;
- Conflicts of Interest;
- Representation;
- Knowledge, understanding and training;
- Service delivery for the LGPS function; and
- Compliance and Improvement

The full review document was provided to the 22 January 2020 Committee meeting.

4.5 Some of the key recommendations set out in the review included:

- Each LGPS Fund must have a single named officer who would be responsible for all LGPS-related activity for their Fund;
- Each Fund must produce a conflicts of interest policy;
- A requirement for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively
- Administering authorities to publish a policy setting out their approach to the delivery, assessment and recording of training
- Each administering authority reporting the Fund's performance against an agreed set of indicators designed to measure standards of service

4.6 Key for the development of the National Knowledge Assessment are the Knowledge and Understanding recommendations within the Good Governance report. Within that section are recommendations that Pension Committees hold a similar level of knowledge to that of the Local Pension Board. The report stated that "*while there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees*". It then continues by stating "*the Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees*".

4.7 The Good Governance report states that training should be provided in a "supportive environment" and "members will not be required to undertake a test, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge". The National Knowledge Assessment addresses these issues and is starting position for Pensions Committees and Boards knowledge and understanding requirements.

5. **FORMAT**

5.1 The knowledge assessment tool consists of at least five multiple choice questions in each of the following areas:

- Committee Role and Pensions Legislation
- Pensions Governance
- Pensions Administration
- Pensions Accounting and Audit Standards
- Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge
- Actuarial Methods, Standards and Practices

5.2 Should the Committee agree to progress with the Knowledge Assessment, each Committee and Board member will be asked to complete the assessment. As well as giving an indication of individual strengths and weaknesses, more importantly this type of assessment helps identify any areas where collectively the Committee or the Board require development. This would then allow more targeted training to be developed and delivered. In addition, as at least 20 LGPS Funds have already undertaken the Knowledge Assessment, it will be possible to benchmark the results against those of other Funds.

CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

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Appendix A

Recommendations of the Scheme Advisory Board's Good Governance Review

Area	Proposal
A. General	**A.1** MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	**B.1** Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
C. Representation	**C.1** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	**D.1** Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.

Area	Proposal
E. Service Delivery for the LGPS Function	**E.1** Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.
	E.2 Each administering authority must publish an administration strategy.
	E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F. Compliance and improvement	**F.1** Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION FUND COMMITTEE REPORT

9 DECEMBER 2020

DIRECTOR OF FINANCE – IAN WRIGHT

Border to Coast Responsible Investment Policy and Corporate Governance & Voting Guidelines

1 **PURPOSE OF THE REPORT**

1.1 To advise the Committee of recent changes made by Border to Coast Pensions Partnership Limited ('Border to Coast') to its Responsible Investment Policy and Corporate Governance & Voting Guidelines.

2 **RECOMMENDATION**

2.1 That Members note and approve the revised Border to Coast documents that are included as tracked changes versions in Appendices A and B to this report, and notes the proposed areas for future development in section 7.

3 **FINANCIAL IMPLICATIONS**

3.1 There are no particular financial implications arising from this report.

4 **BACKGROUND**

4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require the Fund to have a policy on:

- environmental, social and governance (ESG) considerations. The policy is required to take into account the selection, non-selection, retention and realisation of assets, and
- the exercise of rights, including voting rights attached to investments.

4.2 To allow a practical and consistent approach to pooled investments, Border to Coast developed a Responsible Investment Policy and a Corporate Governance and Voting Guidelines document for all its Partner Funds to approve that applies across all the investments it holds on their behalf. These documents are subject to annual review.

4.3 Border to Coast has worked with its voting and engagement partner Robeco to update the documents, using the International Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks. The Partner Fund officers have had the opportunity to input to the revised documents, which were also shared with Border to Coast's Joint Committee at its 24 November 2020 meeting.

4.4 In the 2019 review Border to Coast identified a number of areas for further development during 2020. In March 2020 Border to Coast held a Partner Fund Responsible Investment workshop to seek Partner Funds' views on these areas to build into the 2020 review:

- With respect to climate change, the consensus was for no targets to be set regarding carbon emissions reduction, with the direction of travel being more important. There was also a reiteration of the importance of engagement rather than divestment (from sectors as opposed to individual, poorly managed companies). The policy reflects this position; however, it is worth noting that one partner fund (South Yorkshire Pension Fund Authority) has recently set a challenging goal of making its portfolios carbon neutral by 2030.
- Last year Border to Coast's Board requested that diversity beyond gender be considered. The option of broadening the application of the current voting policy on gender diversity to smaller companies and companies outside the UK was discussed. It was noted that voting on wider diversity matters will continue to be difficult where there is paucity of data, however the policy wording has been updated to indicate the intent to engage in this important area.

4.5 The investment industry's understanding of Responsible Investment matters is evolving rapidly and consequently further areas have been identified for future consideration in 2021 (see section 7). In particular a growing number of asset owners are publishing separate climate change policies and this is appropriate given its material significance to Partner Fund investment outcomes. Border to Coast will therefore during 2021 develop a standalone climate change policy building on the work already undertaken within Border to Coast and with Partner Funds.

4.4 The administering authorities of all eleven of Border to Coast's Partner Funds are being asked to approve the revised documents, which do not contain any changes to underlying principles. The main changes are set out in section 6 below.

5 REVIEW PROCESS

5.1 The Responsible Investment policy and Corporate Governance & Voting Guidelines are reviewed annually or when material changes need to be made. The 2020 annual review process commenced in July to ensure any revisions required are in place and agreed with the Border to Coast's Board and Partner Funds ahead of the 2021 proxy voting season.

5.2 Current policies were evaluated by Robeco, Border to Coast's voting and engagement provider, considering the global context and best practice. This included consideration of the International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.

5.3 The policies of best in class asset managers and asset owners considered to be Responsible Investment leaders were also reviewed to determine how best practice has developed.

5.4 Border to Coast's climate change working party which concluded last year identified a number of key areas requiring further work and development as set out in last year's review:

- How to measure transition risk and the implications of setting targets (see 5.6)
- The role private markets will play in managing transition risk (see 5.7)
- Implications of an exclusion policy if engagement is ineffective (see 5.8)
- Continue to embed and enhance analysis in the investment process (see 5.9)
- Provide further education on the Task-force for Climate-related Financial Disclosure (TCFD) for Partner Funds (see 5.10)
- Review communication approach to managing climate change risk (see 5.10)

5.5 Whilst good progress has been made in most of these areas, work was not concluded in all. In particular, the measurement of transition risk and scenario analysis and the implications of exclusions following ineffective engagement, are areas for further consideration before the 2021 policy review.

5.6 A Responsible Investment workshop was held for the Joint Committee in March where climate change was covered to enable Border to Coast to take Partner Fund views into the 2020 RI policy review. The consensus was that Partner Funds did not want to set climate change targets or exclusions; the direction of travel was seen as more important.

5.7 Border to Coast holds quarterly meetings including its Alternatives team looking at Environmental Social and Governance (ESG) issues with discussions on the role private markets play in the energy transition, carbon measurement challenges and ESG reporting. Investments have been made in 'new economy' themes of technology, healthcare and renewable energy via Border to Coast's private equity and infrastructure portfolios. Carbon measurement is particularly challenging for this asset class. Border to Coast have therefore joined with other asset owners, including other Local Government Pension Scheme (LGPS) pools and the Church of England, to look at how to report across private markets.

5.8 Border to Coast currently have no restrictions or exclusions regarding sectors or specific stocks. Exclusions and divestment, in certain cases, eliminate the ability to drive change within a company. Partner Funds, due to having passive mandates and legacy assets, may not be able to fully adopt the Border to Coast policy if an exclusion clause was added. Externally managed mandates have not been set up with restrictions in place. The investment implications of red lines and exclusions for companies not sectors, will be considered ahead of next year's review.

5.9 Considerable work has been done to embed and enhance climate analysis into the investment process, as captured in the Border to Coast TCFD Report available on Border to Coast's website at the following web page: https://www.bordertocoast.org.uk/sustainability/ . This includes conducting carbon footprints on a quarterly basis on listed equity and fixed income portfolios and using the Transition Pathway Initiative Tool to assess portfolio holdings. Work continues in this area.

5.10 Border to Coast continues to support and provide training for Partner Funds on climate change and recently held a session covering TCFD reporting. They are continuing to develop reporting and communication with Partner Funds to ensure they meet requirements.

5.11 The move towards asset owners and asset managers committing publicly to being net zero by 2050 is growing. This was discussed at a Border to Coast Board Strategy Day in August, considering whether Border to Coast can make a pledge to be “net zero by 2050” across its investment portfolios. This is an area for further work ahead of the next policy review. Border to Coast is in discussion with officers at SYPA, whose Committee has recently made a commitment to being net zero by 2030, to understand how Border to Coast may be able to assist in this challenge.

5.12 In relation to diversity, applying the current voting policy outside the FTSE350 was seen as an area to consider. Last year Border to Coast’s Board requested that diversity beyond gender also be taken into account. This is addressed in the Voting Guidelines through expectations of companies, but it is more difficult to implement through voting due to the lack of disclosure by companies. This is something that can be better addressed by engagement.

5.13 A workshop was held with the officers of the Partner Funds on 22nd September. The proposed revised policies were shared with officers. Feedback on the Responsible Investment Policy covered governance, integration and escalation, and on the Corporate Governance & Voting Guidelines included comments on diversity, board evaluation, stakeholder engagement, dividends and climate change. These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the revised policies. Divestment following unsuccessful engagement and specific climate-related exclusions have not been included in this review as work will be undertaken on these areas ahead of the 2021 Policy Review process.

6. CHANGES

6.1 The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. There are several minor amendments including proposed additions and clarification of text. All changes are shown as track changes in the attached Appendix B.

6.2 Changes to the Corporate Governance & Voting Guidelines are summarised below.

Section	**Page**	**Type of Change**	**Rationale**
Diversity	5	Addition / clarification	Rewording and increasing scope of approach.
Re-election	5/6	Addition / clarification	Board member election using majority voting standard.

Section	Page	Type of Change	Rationale
Board evaluation	6	Addition	Assess skills.
Stakeholder engagement	6	Addition	Company response where significant votes against received.
Directors' Remuneration	6/7	Clarification Addition	Rephrasing. Greater detail on ESG incorporation in exec pay.
Annual bonus	7	Addition	Deferral of portion of short-term bonus.
Political donations	9	Clarification	Oppose political donation proposals.
Dividends	10	Addition	No publicly disclosed capital allocation strategy.
Virtual shareholder General Meetings	11	Addition	Loosen current approach but need to safeguard shareholder participation.
Shareholder proposals	12	Addition	Expand text to include types of proposal we would usually support.
Climate change	12	Addition	Vote against Chair if high emitting company with Transition Pathway Initiative (TPI) score of zero or 1.

6.2 The amendments to the Responsible Investment policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
1. Introduction	2	Clarification	Implementation of policy.
1.1 Policy framework	2/3	Addition	Policy framework context (with thanks to SYPA).
5. Integrating RI into investment decisions	4	Addition Addition	Biodiversity. Text explaining 'overarching principles' apply to all asset classes.
5.1 Listed equities – internally managed	4	Clarification	Extra text to clarify process.
5.2 Private markets	5	Addition	Monitoring ESG policies and encourage improvement.
5.4 External manager selection	5 5	Addition Addition	Extra detail on expectations. PRI Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Section	Page	Type of Change	Rationale
5.5 Climate change	6/7	Addition Addition Addition Addition	Reference to climate risk reporting via TCFD report. Use of Transition Pathway Initiative (TPI). Vote against Chair where rated zero or 1 by TPI. Private market investment themes.
6. Stewardship	7	Addition	Extra clarification text. Commitment to 2020 UK Stewardship Code.
6.1 Voting	7	Addition	Clarification on split voting circumstances - clear rationale from Partner Fund.
6.1.1 Use of proxy advisers	8	Clarification Clarification	Monitoring of Robeco. Updated text on share blocking.
6.2 Engagement	9/10	Addition Addition Addition	Input into Robeco process for new themes. Include OECD Guidelines breaches. Sharing engagement information.
9. Training and assistance	11	Addition	Training for Investment Team, Board and Joint Committee.

6.3 An increasing number of asset owners and asset managers are publishing separate documents defining the approach taken to climate change. This includes Brunel Pension Partnership, Local Pensions Partnership and NEST. South Yorkshire Pensions Authority (SYPA) also have a separate climate policy, which references not investing in pure coal and tar sands and that SYPA will 'seek to use its influence within the wider Border to Coast Partnership to secure the agreement of appropriate goals for reducing the carbon intensity of portfolios'. This is a long-standing policy and whilst not written into Border to Coast's policy, Border to Coast does not currently hold any such investments.

7 WORK TO BE UNDERTAKEN IN 2021

7.1 The following pre-work will be undertaken ahead of the 2021 Policy Review process:

- The development of a standalone climate change policy
- The measurement of transition risk and the implications of setting targets, including the potential to set a net zero carbon target
- The role of private markets in managing transition risk
- Implications of an exclusion policy if engagement is ineffective

7.2 Border to Coast will also continue to develop their communication approach to enable Partner Funds and other important stakeholders to understand and oversee Border to Coast in carrying out their responsible investment remit.

8. NEXT STEPS

8.1 Border to Coast will continue to work with its Partner Funds to develop and update its approach to Responsible Investment and Corporate Governance.

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Responsible Investment Policy

Border to Coast Pensions Partnership

November 2020
~~November 2019~~

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

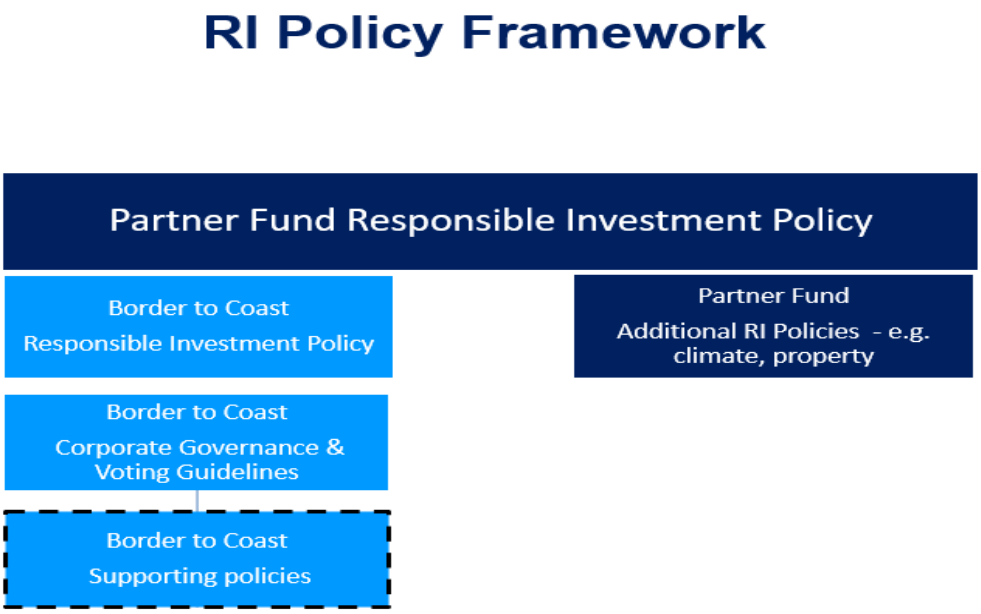
Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its ~~twelve~~ eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will ~~therefore,~~ hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

1.1 Policy framework

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the **website**). Border to Coast has ~~a~~ dedicated staff resources for managing RI within the organisational structure.

The RI Policy ~~is jointly~~ is owned by Border to Coast ~~owned~~ and created after collaboration and engagement with our eleven ~~twelve~~ Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast ~~will~~ considers material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption ~~Single use plastics~~ Political lobbying

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

5.1. Listed e~~E~~quities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI ~~will~~ works with colleagues to ensure they are knowledgeable and fully informed ~~raise awareness~~ on~~of~~ ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase and maintain knowledge, and portfolio managers will be involved in the voting process.

5.2. Private m~~M~~arkets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast ~~will~~ takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process~~will be considered as part of the due diligence process~~ for all private market investments.

- A manager's ESG strategy is~~will be~~ assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are~~will be~~ requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring ~~will~~ includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. Fixed i~~I~~ncome

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis is~~will~~ therefore ~~be~~ incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data is~~will be~~ used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is~~will be~~ used to determine a bond's credit quality. Information is~~will be~~ shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External m~~M~~anager s~~S~~election

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

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. We will encourage managers to become signatories to the UN-supported Principles for Responsible Investment. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

Risks and opportunities can be presented through a number of ways and include:

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

Border to Coast is:

- Assessing its portfolios in relation to climate change risk where practicable.
- Incorporating climate considerations into the investment decision making process.
- Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.
- Encouraging companies to adapt their business strategy in alignment with a low carbon economy.
- Supporting climate related resolutions at company meetings which we consider reflect our RI policy.
- Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Using the Transition Pathway Initiative (TPI)[2] toolkit to assess companies and inform company engagement and voting.
- Voting against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.

[1] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions. https://www.fsb-tcfd.org/publications/finalrecommendations-report/

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

- Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitoring and reviewing ~~its~~ our fund managers in relation to climate change approach and policies.~~,~~
- Participating in collective initiatives collaborating with other investors including other pools and groups such as the Local Authority Pension Fund Forum (LAPFF).
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).
- Reporting on the actions undertaken with regards to climate change on an annual basis in ~~its~~ our TCFD report.
- Key investment themes pursued by the private markets team include Energy Transition opportunities which support the move to a lower carbon economy.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It ~~will~~ practices active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are a signatory to the UK Stewardship Code[3] and are committed to being a signatory to the 2020 Code; we are also a signatory ~~the~~to the UN - supported Principles of Responsible Investment[4].

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund ~~wishes~~ may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1 Use of proxy advisers

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies.

[3] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.
https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx

[4] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is~~will be~~ required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also monitors~~reviews~~ the services provided by Robeco monthly, with a six monthly and full annual review.~~on a regular basis~~.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

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

During this blocking period, shares cannot be sold ~~until after the meeting has taken place~~; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may ~~abstain~~ refrain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all ~~twelve~~ eleven Partner Funds are members of the ~~Local Authority Pension Fund Forum (~~LAPFF~~)~~. Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.
- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.
- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[5] breaches or OECD Guideline for Multinational Enterprises breaches[6]~~.~~
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

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

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

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

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact P~~p~~rinciples or OECD G~~g~~uidelines for~~ m~~ Multinational ~~e~~Enterprises. Both sets of principles~~,~~ cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART[7] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the investment team have access to our engagement provider's Active Ownership profiles and engagement records. This additional information feeds into the investment analysis and decision making process

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

6.2.1. Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.3. Due d~~D~~iligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider, is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

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

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We ~~wil~~also ~~bevoluntari~~report~~ing~~ in line with the TCFD recommendations.

9. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

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

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

~~November 2019~~
November 2020

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast.~~ This will generally be where it holds a declarable stake or is already engaging with the company~~. In some instances, attendance at AGMs may be required.

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

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chair~~man (he or she)~~ is distinct from that of other board members and should be seen as such. The Chair~~man~~ should be independent upon appointment and should not have previously been the CEO. The Chair~~man~~ should also take the lead in communicating with shareholders and the media. However, the Chair~~man~~ should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair~~man~~ and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it- should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 30% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognis~~z~~ing varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case.

~~In line with the government-backed Davies report and the Hampton-Alexander review we will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.~~

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chair~~man~~ or Senior Independent Non-executive Director except when it is appointing the Chair~~man~~'s successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with ~~the~~ issues such as~~of~~ stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

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

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

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that ~~the link between~~high executive pay ~~and company performance is negligible~~does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its

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

shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

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

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report ~~(other than those for investment trusts)~~ should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

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

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

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

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we would expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, –support resolutions requesting additional reporting on material business risk, ESG topics, climate risk and lobbying.

Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit to assess our listed equities investments. TPI enables assessment of how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

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

Border to Coast Pensions Partnership Ltd

Teesside Pension Fund

9th December 2020

Agenda Item 9

Agenda

- Border to Coast Update
- Market Background
- Equity Investments Update
    - UK Listed Equity Fund
    - Overseas Developed Markets Equity Fund
- Alternatives Investments Update
    - Private Equity
    - Infrastructure

Border to Coast Pensions Partnership Ltd

Border to Coast - Update

Capability Launch - Timetable

	Launched 2018/19	2020 Launches	Scheduled 2021	2022 and beyond
Internal Equities	UK Listed Equity Overseas Developed Emerging Markets	Emerging Market Hybrid		
External Equities	UK Listed Equity Alpha Global Equity Alpha		ESG Passive/Factor Regional Alpha Emerging Markets Alpha	
Alternatives	Private Equity Infrastructure Private Credit	Private Equity Series 1b Infrastructure Series 1b *(continued annually)*	Listed Alternatives Cashflow Management & Asset Allocation	Legacy Diversified Alternatives
Fixed Income		UK IG Credit Inflation Linked Bonds	Multi-Asset Credit	
Property			Global Property	UK Property

Border to Coast Team

CEO: Rachel Elwell				
CIO: Daniel Booth	COO: Fiona Miller		CRO: Manda McConnell	CEO Team
Investment Team 39 people	Operations Team 9 people	Corporate Functions 26 people	Risk Team (2^{nd} Line) 5 people	CRM, HR, Policy/Comms 8 people

- Team of 91 in total (as at 8 October 2020)

Recent Hires – Investment Team

We have recruited a number of key individuals over the year to date:

12 Investment team hires, across Internal Equities (SPM), Internal Fixed Income (2 PM), Research (2 RM), External Funds (APM), Alternatives (4 PM) & Real Estate (Head & Programme Manager).

Key hires over the last quarter include:

- **Tim Sankey** – Head of Real Estate
    - Previous 17 years at Aberdeen Standard Investments managing UK Property
- **Peter Lunn** – Property Programme Manager
    - Wealth of financial experience and freelance project & programme management
- **James McLellan** – Senior Portfolio Manager, Internal team
    - 30 years in the industry, including at UBS Global and Insight Investment
- **Christian Dobson** – Portfolio Manager, Alternatives
    - Joins us from Nationwide Pension Fund, a £6.5bn DB scheme.

Border to Coast Pensions Partnership Ltd

Market Background

Market Background – Q3 2020

- Modest rise in equity markets during Q3, following Q2's significant increases – fiscal and monetary stimulus, increased economic activity, etc
- Significant increases in virus cases and reintroduction of lockdowns (local giving way to national) – not expecting a V-shaped recovery
- Labour markets face pressure when support decreases; two-tier workforce developing (ability to work remotely)
- Inflationary pressures are contained but could build in future – loose monetary policy will remain
- Government bond yields are low or negative, credit spreads on corporate bonds have narrowed → c. $16trn bonds with negative yields
- Real estate outlook unclear due to risk of payment defaults and changes in demand
- Equity valuations above long-term averages, but investor sentiment remains positive
- Emerging outperformed developed markets by 1.5% over Q3, a partial reversal of Q1 and Q2
    - US was the strongest developed market, UK the weakest
    - India and China were the strongest emerging markets; Thailand and Indonesia lagged
- Healthcare and Technology sectors outperforming; Energy and Financials have been much weaker
- *Quality* companies led while *Value* lagged - an established 2020 trend
- High-yielding companies underperformed due to dividend cuts
- US election poses significant political risk – Biden has clear poll lead; Trump expected to dispute result if Biden wins

Teesside – Valuation & Commitments

Listed Investments	Teesside Value (as at 30/09/2020)	Total Fund Value (as at 30/09/2020)
	£	£
UK Listed Equity Fund	1,096.3m	3.9bn
Overseas Developed Markets Fund	239.2m	3.1bn

Alternative Investments	Teesside Commitment (Series 1a + 1b)	Committed by Border to Coast to Managers (*)	Total 1a + 1b Commitment (all Partner Funds)
	£	£ (% of commitment)	£
Infrastructure	150m	110.2m (74%)	1,435m
Private Equity	150m	132.8m (89%)	985m
Private Credit	---	---	581m

Source: Border to Coast. Past performance is not a reliable indicator of future performance and is not guaranteed.
(*) As at 03/11/2020.

Border to Coast Pensions Partnership Ltd

Investment Approach

Internal Equity Fund Management - Investment Philosophy

Risk Profile	Low active risk, mostly taken within sectors rather than between Should maintain sufficient risk profile without overdiversification
Quality Factor	Quality, size, value, and momentum provide long term excess returns. Preference quality stocks with good balance sheets, with a margin of safety and downside protection
Governance	Management must be aligned to shareholders. Governance will be assessed as part of our incorporation of ESG factors in investment decision-making.
Sustainable	Target long-term cashflows to generate reliable returns, using a repeatable and systematic investment process, and incorporate responsible investment into the selection.
Valuation	Even if everything else fits, stocks must be good value and we should be able to capture upside potential, to use stock selection as a source of outperformance.

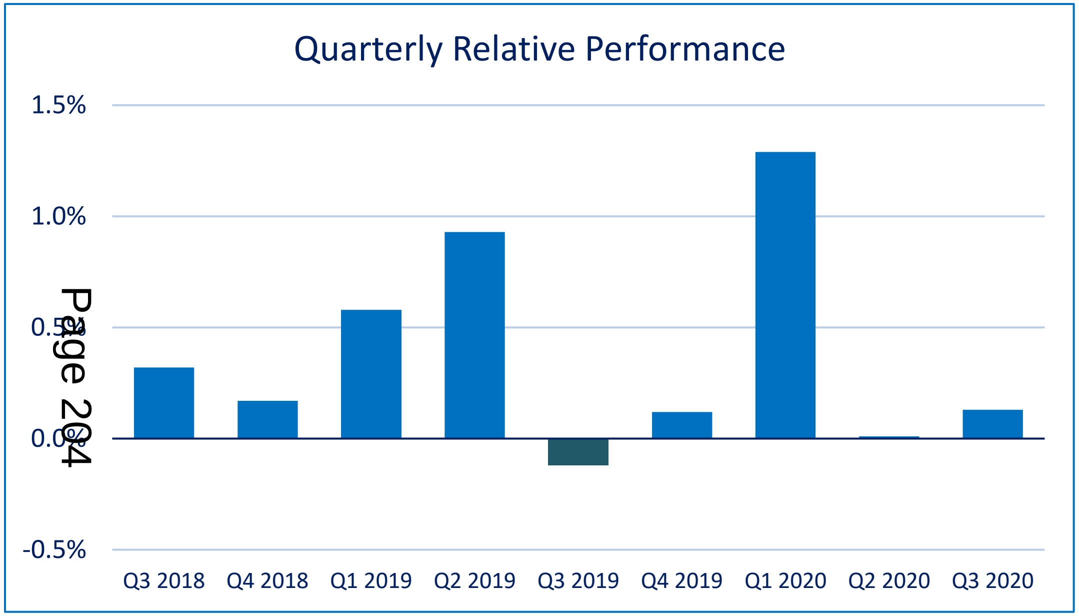
Responsible Investment Integration

- Integrating ESG into our **portfolio construction** across all of our Funds.
- RI **specifically scored** as part of the selection and appointment process for all of our strategies.
- Internal **quarterly screening and benchmarking**; internal meeting to discuss output.
- **Engaging with managers** on any securities that have been flagged from our quarterly ESG screens.
- **Analysing quarterly attestations** including external management reporting.
- **Dedicated quarter on RI Agenda** including an **annual RI review** with all of our strategies.

Border to Coast Pensions Partnership Ltd

UK Listed Equity Fund

UK Listed Equity Fund Performance



	QTD	1 Yr	ITD*
Fund	-2.78	-15.12	-5.74
Benchmark	-2.92	-16.59	-7.28
Relative	**0.14**	**1.47**	**1.54**

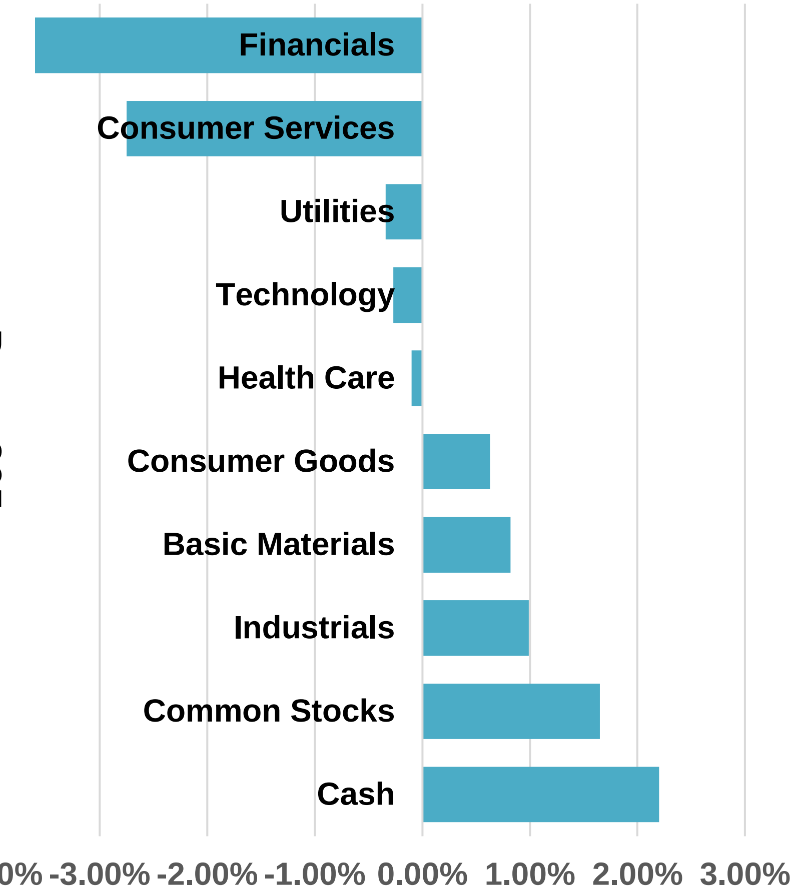
As at 30 September 2020
Inception date: 26 July 2018
Benchmark: FTSE All Share
Performance is net of fees
*ITD return is per annum

Investment Objective:

To outperform the Benchmark by at least 1% p.a. over rolling 3 year periods

Past performance is not a reliable indicator of future performance and is not guaranteed
Figures may not always sum due to rounding
Source: Northern Trust, Border to Coast

UK Listed Equity Fund
Portfolio Positioning

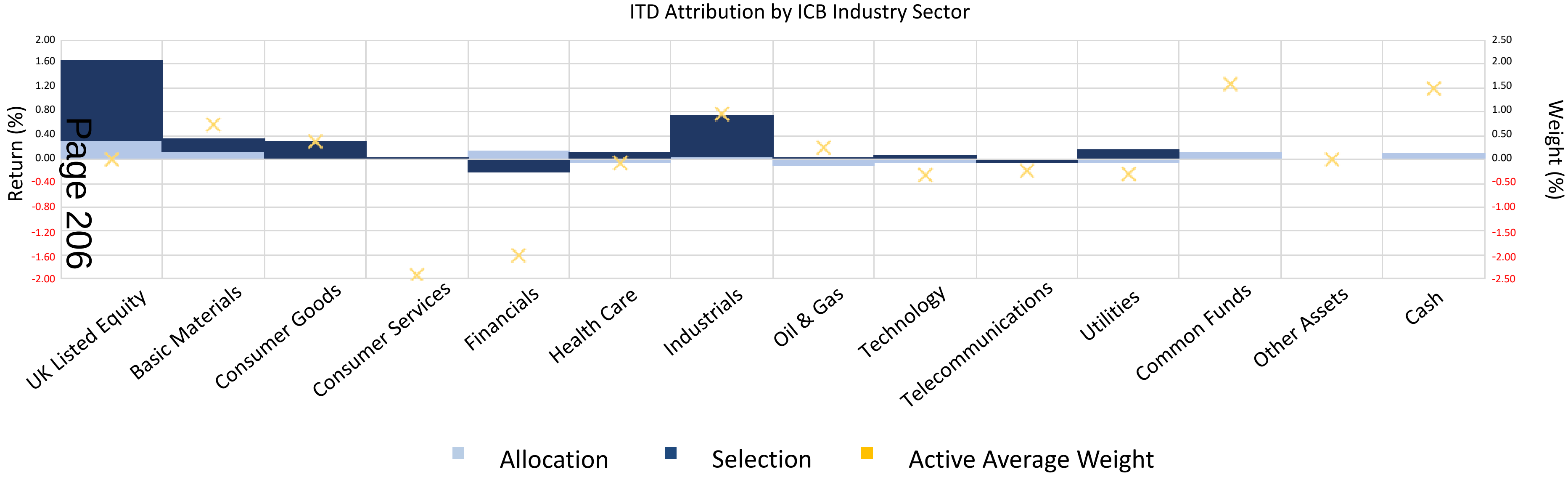


Top 5	Relative weight %
Impax Environmental Markets	+0.98
Antofagasta	+0.96
Schroder UK Smaller Companies	+0.86
BHP	+0.85
Liontrust UK Smaller Companies	+0.82

Bottom 5	Relative weight %
SEGRO	-0.59
Ocado	-0.71
Scottish Mortgage Inv. Trust	-0.78
Flutter Entertainment	-0.79
Glencore	-0.92

Past performance is not a reliable indicator of future performance and is not guaranteed.
Source: Northern Trust, Border to Coast

UK Listed Equity Fund Performance Attribution



Past performance is not a reliable indicator of future performance and is not guaranteed.
Source: Northern Trust, Border to Coast

UK Listed Equity Fund
Quarterly Performance Contributors

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
William Hill PLC (o/w)	0.63	0.15	0.29	US online sports betting market opportunity gathers pace and received cash bid from US JV partner Caesars Entertainment Inc.
Fresnillo (o/w)	0.66	0.12	0.23	Beneficiary of high gold and silver prices which continue to benefit from safe-haven status given economic uncertainty.
Antofagasta (o/w)	1.15	0.19	0.14	Benefited from higher copper prices - robust demand from China and virus-related supply restrictions at producers in the Americas.
Next PLC (o/w)	1.02	0.40	0.13	Improved profit guidance and lower net debt levels, as resilient trading through lockdown continues to exceed expectations.
Impax Environmental Markets PLC (o/w)	1.03	0.05	0.12	A leading ESG-focused fund, whose underlying holdings have seen sustained valuation increases.
Kingfisher PLC (u/w)	0.00	0.33	-0.09	DIY and home/garden improvements benefitted from lockdown, alongside property market boost from a stamp duty holiday.
3I Group PLC (u/w)	0.00	0.51	-0.10	Positive momentum in med-tech and personal care holdings alongside retail recovery - Action has seen strong online growth.
Flutter Entertainment (u/w)	0.00	0.79	-0.12	US sports betting gathers pace as states legalise online sports betting and US sports return; exposed to this trend via William Hill.
Scottish Mortgage Investment Trust (u/w)	0.00	0.78	-0.15	The trust has a global large-cap tech bias which benefited from lockdown; exposed to these trends via Allianz Technology Trust.
Ocado (u/w)	0.00	0.71	-0.19	UK online grocery demand increased significantly during lockdown and the switch to new supplier M&S seems to be received well.

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Past performance is not a reliable indicator of future performance and is not guaranteed.
Source: Northern Trust, Border to Coast

UK Listed Equity Fund
Largest Transactions

Purchases

AstraZeneca PLC
(£14.0m)
strong revenue growth from portfolio of recently launched drugs, and broad late-stage pipeline.

GlaxoSmithKline PLC
(£10.2m)
improving drug pipeline, strong market positions in vaccines, HIV, respiratory & consumer health-care, potential to improve margins.

Royal Dutch Shell 'B'
(£13.0m)
added on weakness post dividend cut, write-down of fossil fuel assets and accelerating renewables expansion, given robust cash generation.

Sales

Antofagasta
(£9.0m)
reduced overweight as shares outperformed due to robust Chinese copper demand and Covid-19 led supply restrictions.

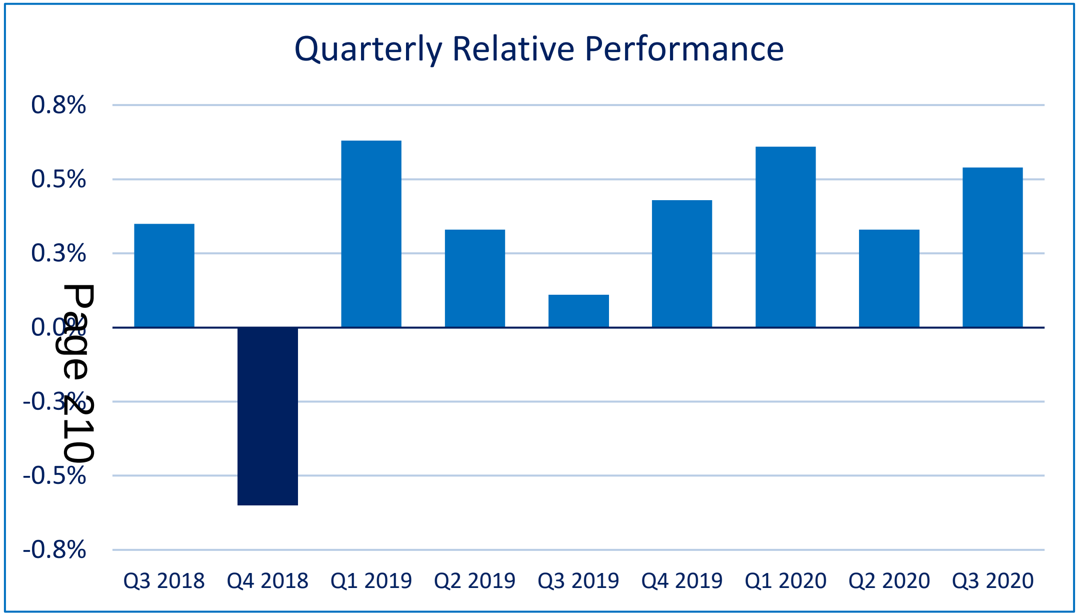
Fresnillo PLC
(£7.0m)
reduced overweight position as shares have continued to move higher, driven by safe-haven demand for gold/silver.

Source: Northern Trust, Border to Coast

Border to Coast Pensions Partnership Ltd

Overseas Developed Markets Equity Fund

Overseas Developed Equity – Performance



Source: Northern Trust, Border to Coast

	QTD	1 Yr.	ITD*
Fund	2.94	5.21	6.43
Benchmark	2.42	3.22	5.13
Relative	**0.52**	**1.99**	**1.30**

Tracking error	1.04	Sharpe Ratio	0.37
Volatility	14.69	Info. Ratio	1.27

Source: Northern Trust, Border to Coast as at 30 Sept 2020
Inception date: 9 July 2018
Benchmark: S&P 500 (40%), FTSE Developed Europe ex-UK (30%), FTSE Developed Pacific ex-Japan (20%), FTSE Japan (10%)
Performance is net of fees
*ITD return is per annum

Investment Objective:

To outperform the Benchmark by at least 1% p.a. over rolling 3 year periods

Past performance is not a reliable indicator of future performance and is not guaranteed
Figures may not sum due to rounding

Overseas Developed Equity Quarterly Performance Attribution

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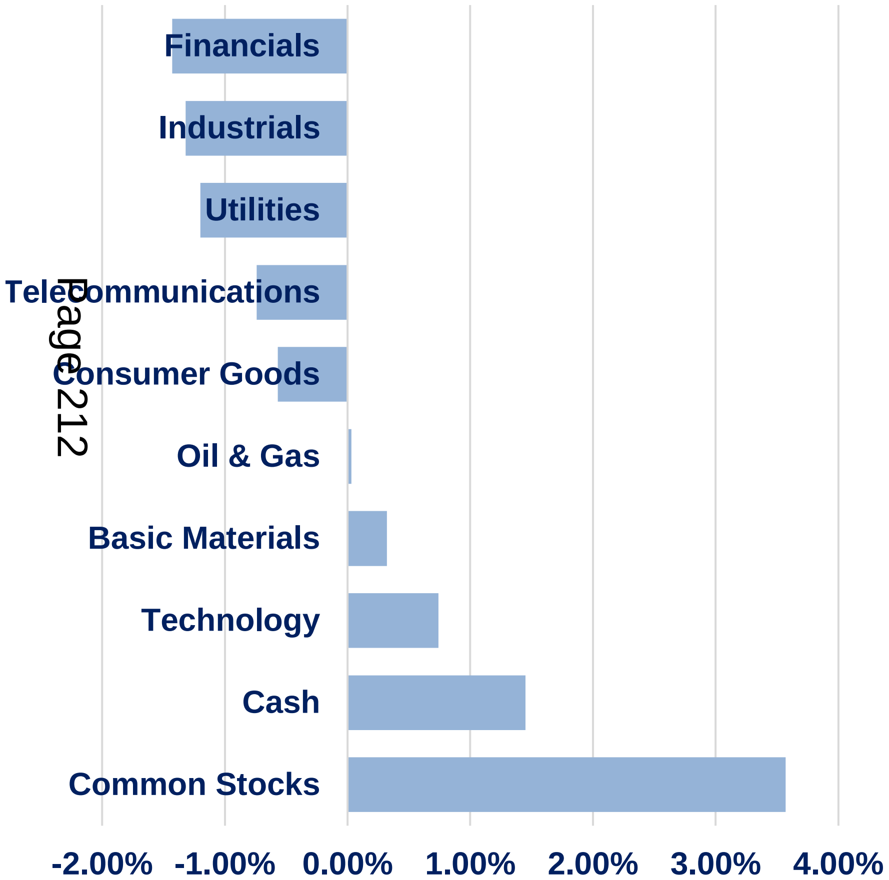
Past performance is not a reliable indicator of future performance and is not guaranteed.
Source: Northern Trust, Border to Coast

Overseas Developed Equity Portfolio Positioning



Source: Northern Trust, Border to Coast

Top 5*	Relative weight
Vanguard US Mid Cap ETF	+3.04%
Alphabet A	+0.69%
Samsung Electronic	+0.53%
VISA	+0.47%
NVIDIA Corporation	+0.46%

Bottom 5*	Relative weight
Alphabet C	-0.62%
Mastercard	-0.43%
PayPal	-0.33%
Comcast	-0.30%
Enel SPA	-0.30%

*Source: Northern Trust, Border to Coast

Past performance is not a reliable indicator of future performance and is not guaranteed
Source: Northern Trust, Border to Coast

Overseas Developed Equity
Quarterly Performance Contributors

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
NVIDIA Corporation (o/w)	0.93	0.48	0.13	Strong results and well received product launches for data centre and gaming processors.
Xinyi Solar (o/w)	0.24	0.00	0.10	Chinese policy supportive of industry growth prospects, leading to increased demand for solar products and positive trading update.
Baillie Gifford Shin Nippon (o/w)	0.37	0.00	0.06	Good underlying portfolio performance, and movement from a small discount to around a 4% premium to NAV.
Hyundai Motor (o/w)	0.33	0.17	0.06	Scale up of its electric vehicle (EV) business and launch of EV dedicated platform, combined with general recovery in auto sales.
JP Morgan Euro Smaller Comp. (o/w)	0.39	0.00	0.05	Rebound in smaller companies after significant under-performance in Q2; also benefited from rotating from quality into value stocks.
Daimler (u/w)	0.00	0.19	-0.04	The auto sector outperformed on the back of stimulus packages by various European countries which may result in increased demand.
AMD (u/w)	0.00	0.14	-0.04	Gains reflect expanding opportunity in accelerated computing solutions within the data centre market.
Vestas Wind Systems (u/w)	0.00	0.14	-0.05	Benefits from large orders in NA and governments encouraging green energy, particularly in EU following news of Green Deal
UPS (u/w)	0.00	0.17	-0.05	Surge in e-commerce fulfilment drove revenue growth whilst new CEO commits to re-focus on profitability metrics.
Citigroup (o/w)	0.32	0.13	-0.05	Discovery of control issues coincided with broad sector weakness, looming regulatory stress tests and the departure of the CEO.

Past performance is not a reliable indictor of future performance and is not guaranteed.
Source: Northern Trust, Border to Coast

Overseas Developed Equity Largest Transactions

Purchases

Vanguard US Mid-Cap ETF (£9.2m)

rotating money into smaller companies after a period of historically poor relative performance.

Samsung Electronics (£4.0m)

long term growth prospects remain positive supported by recent significant orders from Verizon and Qualcomm.

HK Exchanges (£2.9m)

long term growth prospects supported by positive catalysts such as secondary listings of Chinese companies.

Sales

WEC Energy Group (£6.2m)

full disposal after strong rel. performance as the Group's coal fired generation may face harsher regulations under Biden.

Apple Inc. (£5.5m)

taking profit at a historically high valuation; growing anti-trust concerns around the app store business.

China Mengniu (£4.9m)

full disposal of company as it moved out of the benchmark, investment case not strong enough to retain the holding.

Source: Northern Trust, Border to Coast

Border to Coast Pensions Partnership Ltd

Alternative Investments

Alternative Investments - Fund Range

	Launched Alternative Asset Classes		
	Private Equity *Investment in privately held companies*	**Infrastructure** *Real assets providing essential services*	**Private Credit** *Lending to privately held companies*
Series 1A	£500m	£675m	£580m
Series 1B	£485m	£760m	n/a
Target[1]	10% p.a.	8% p.a.	6% p.a.

Border to Coast – Unregulated Collective Investment Scheme

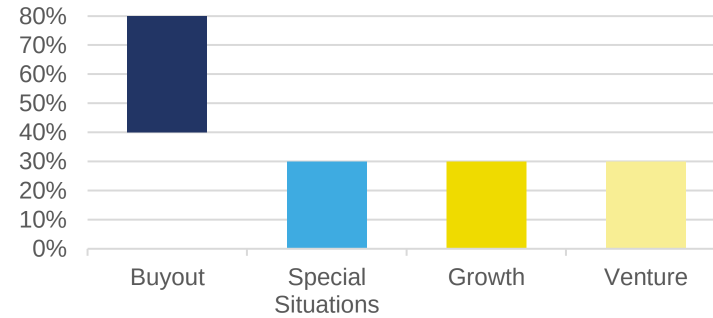
Investments are held within an unregulated collective investment scheme which is not authorised or regulated by the Financial Conduct Authority.

[1] Measured over rolling three year periods net of costs.

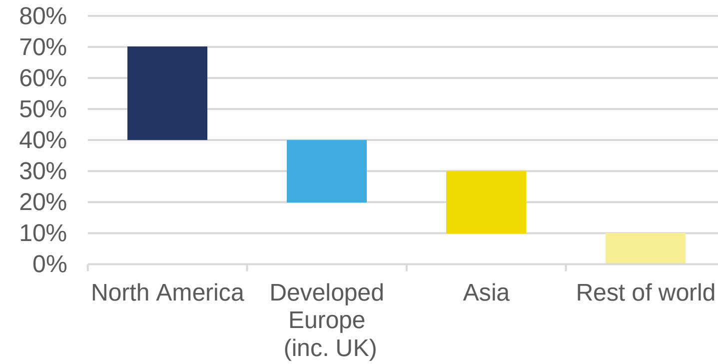
Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.

Private Equity: Asset Allocation

Strategy	Permitted Range[1]
Buyout	40 – 80%
Special Situations	0 – 30%
Growth	0 – 30%
Venture	0 – 30%



Geography	Permitted Range[1]
North America	40 – 70%
Developed Europe (inc. UK)	20 – 40%
Asia	10 – 30%
Rest of world	0 – 10%



Benchmark	10% p.a. (net)[2]

Series 1A Commitments	£500m
Series 1B Commitments	£485m

[1] Based on total commitments over a full Series (e.g. 1A, 1B, 1C)
[2] Secondary benchmark – MSCI ACWI + 3% (PME+ basis)

Private Equity: Areas of Focus

OPERATIONAL VALUE ADD	Deliver enhanced returns through operational improvements rather than being reliant on leverage.
BUY AND BUILD	Adding value through building a platform and taking advantage of higher multiples for scale businesses.
MID-MARKET FOCUS	Lower valuation multiples and leverage levels; greater opportunity for operational value add and buy and build strategies.
CO-INVESTMENTS	Access to a diversified range of investments, either through co-investment funds or direct co-investments, with a lower fee structure.

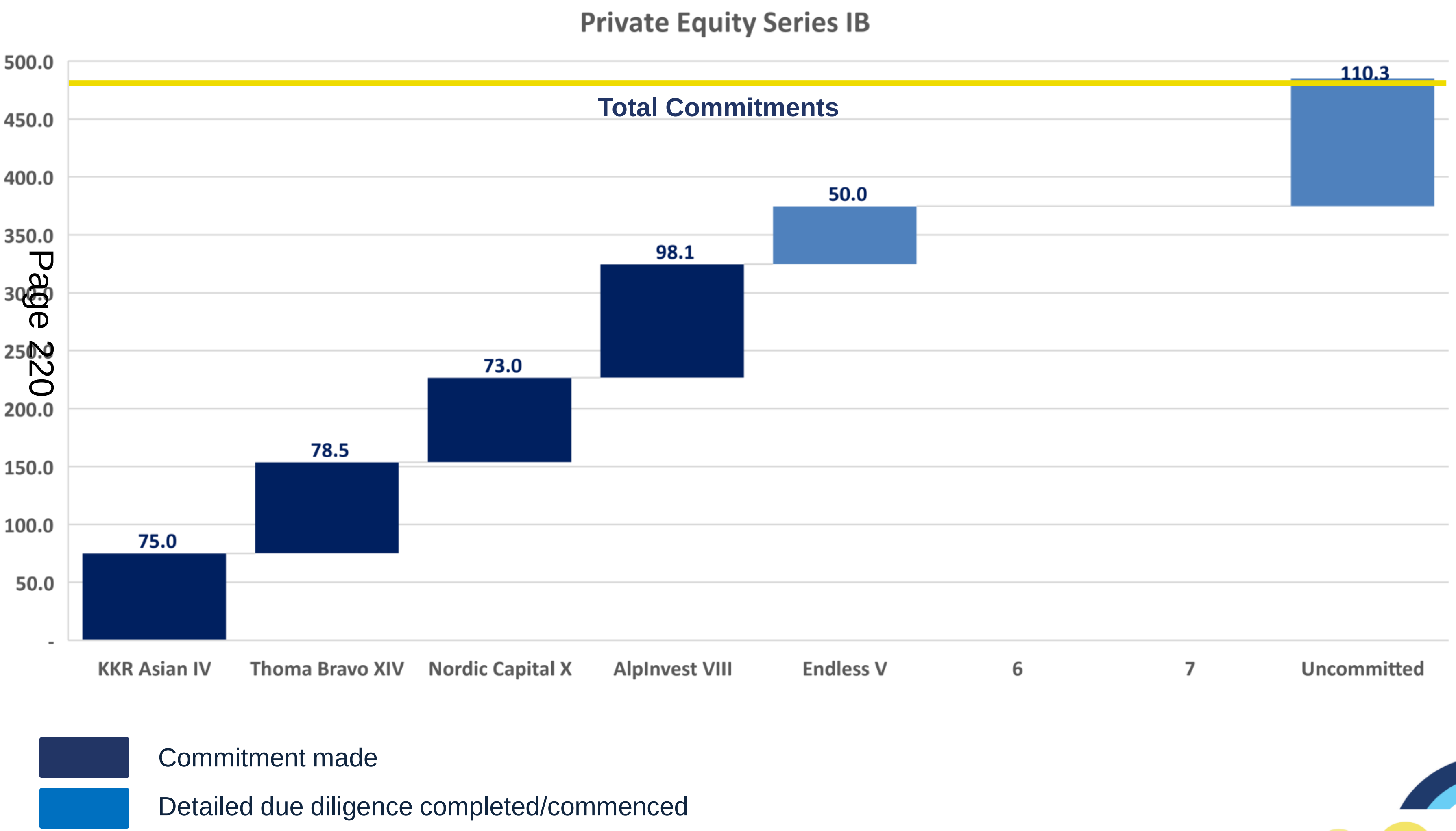
Note: These are areas of focus and will form part of a suitably diversified portfolio

Private Equity: Areas of Focus

ASIA	Stronger economic growth over the long term and less developed Private Equity market.
SECTOR SPECIALISTS	Industry expertise a real differentiator in terms of value creation and deal sourcing.
SECTOR THEMES	Long term structural drivers – Technology (AI, IoT, cloud) and Healthcare (trends in global demographics and increased per capita spending).
DISTRESSED	Potential for attractive opportunities given position in business cycle and extended valuations in addition to impact from Covid-19.

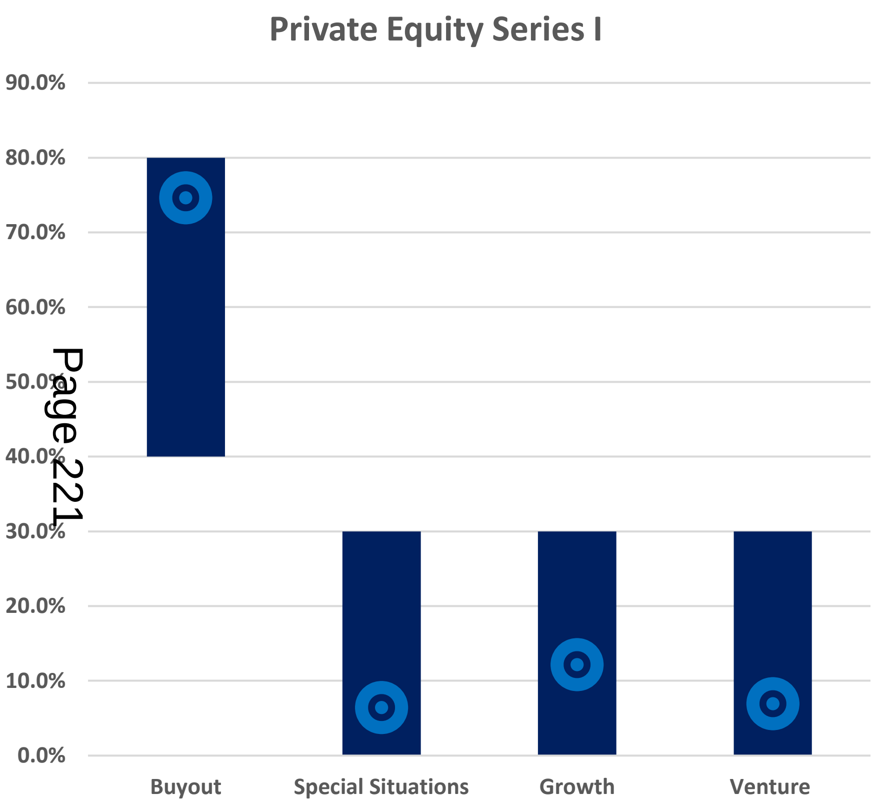
Note: These are areas of focus and will form part of a suitably diversified portfolio

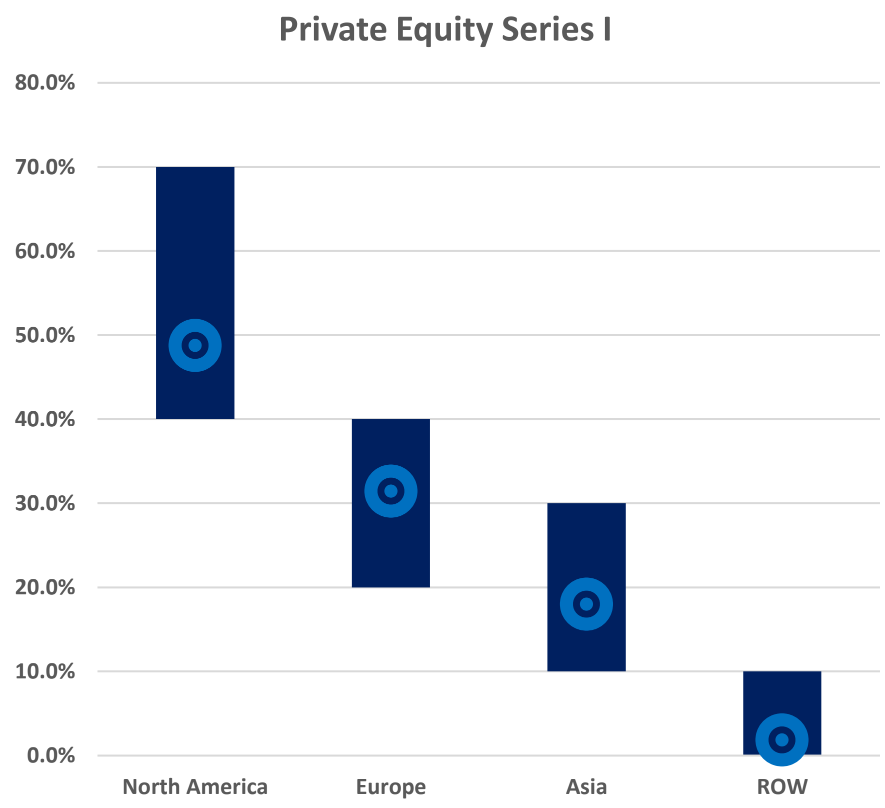
Private Equity 1B: Commitments to Date



Note: Commitments in £m using exchange rates at time of approval
Residual uncommitted capital to be cancelled

Private Equity: Asset Allocation





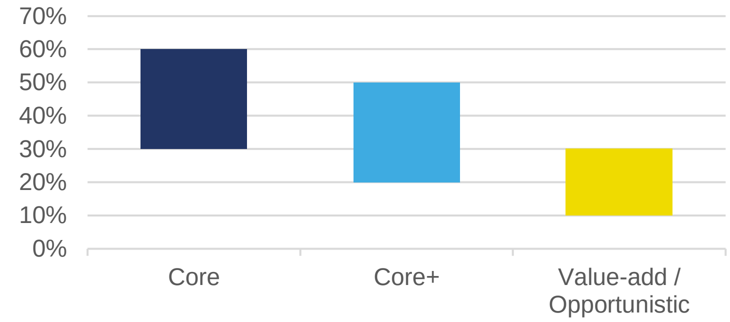
Permitted range

Current allocation

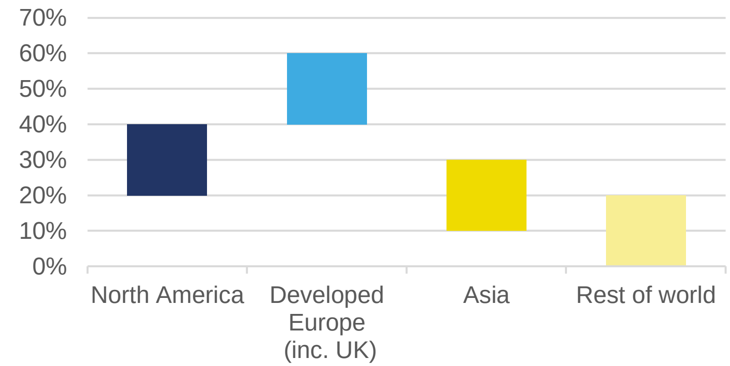
Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole

Infrastructure: Asset Allocation

Strategy	Permitted range[1]
Core	30 – 60%
Core+	20 – 50%
Value-add / Opportunistic	10 – 30%



Geography	Permitted range[1]
North America	20 – 40%
Developed Europe (inc. UK)	40 – 60%
Asia	10 – 30%
Rest of world	0 – 20%



Benchmark	8% p.a. (net)

Series 1A Commitments	**£675m**
Series 1B Commitments	**£760m**

[1] Based on total commitments over a full Series (e.g. 1A, 1B, 1C)

Infrastructure: Areas of Focus

OPERATIONAL VALUE ADD	Deliver enhanced returns through operational improvements with a focus towards income and less reliance on leverage to generate returns.
SECTOR THEMES	Energy transition – investments that enable or benefit from the move to a lower carbon economy; Digital revolution – growing demand for data and access to networks
GREENFIELD	Capture additional returns from development/extension opportunities whilst demonstrating strong risk mitigation techniques.
EMERGING MARKETS	Stronger economic growth and longer term demographics driving demand for infrastructure in a less developed market with lower valuation and leverage levels albeit with a different risk profile.

Note: These are areas of focus and will form part of a suitably diversified portfolio

Border to Coast Pensions Partnership Ltd

Additional Information

COVID-19 Update

- Staff continue to work from home, given the current circumstances.
    - This is generally working well, albeit certain collaborative work is more challenging.

- Office will be available from November on a business-needs basis.
    - Has been utilised for management meetings, team catch-ups, etc.

- Most colleagues feel well informed and believe their views are being considered in office-related considerations.
    - Source: anonymous staff survey

£14bn Active Equity Funds

	Internal			External	
	UK Listed Equity Fund	**Overseas Developed Markets Equity Fund**	**Emerging Markets Equity Fund**	**UK Listed Equity Alpha Fund**	**Global Equity Alpha Fund**
Approx. Size*	£3.9bn	£3.1bn	£0.7bn	£1.1bn	£5.0bn
Launch Date	July 2018	July 2018	October 2018	December 2018	September 2019
Benchmark	FTSE All Share	Regional Comp	S&P Emerging	FTSE All Share	MSCI All World
Target[1]	BM +1% p.a.	BM +1% p.a.	BM +1% p.a.	BM +2% p.a.	BM +2% p.a.

Border to Coast – FCA Regulated ACS Structure

[1] Measured over rolling three year periods net of costs.
Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.
* As at 30/09/2020

£4.5bn Fixed Income Funds

	Internal	External	
	Sterling Index Linked Bond	Investment Grade Credit	Multi-Asset Credit [2]
Approx. Size*	£1.6bn	£2.9bn	£3bn
Launch Date	4Q 2020	1Q 2020	To Launch (Q2 2021)
Benchmark	FTSE A UK IL Gilts 15y	iBoxx GBP Non-Gilts	SONIA (Cash)
Target[1]	BM +0.2% p.a.	BM +0.6% p.a.	BM +3 to 4% p.a.

Border to Coast – FCA Regulated ACS Structure

*As at 30/09/2020

1 Measured over rolling five year periods net of costs.
2 Includes an internally managed EMD sleeve
Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.

Equity Funds
Performance to 30/09/2020

Internally Managed

Fund Name	QTD (%)			1 Year (%)			ITD (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
UK Listed Equity Fund	-2.78	-2.92	0.14	-15.12	-16.59	1.47	-5.74	-7.28	1.54
Overseas Developed Equity Fund	2.94	2.42	0.52	5.21	3.22	1.99	6.43	5.13	1.30
Emerging Markets Equity Fund	1.91	4.00	-2.09	0.37	3.52	-3.15	5.43	8.33	-2.89

Externally Managed

Fund Name	QTD (%)			1 Year (%)			ITD (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
UK Listed Equity Alpha Fund	0.47	-2.92	3.40	-12.85	-16.59	3.74	-1.13	-3.37	2.23
Global Equity Alpha Fund	0.96	3.35	-2.38	-	-	-	1.07	8.35	-7.28

Past performance is not a reliable indicator of future performance and is not guaranteed. Figures do not always sum due to rounding.
Source: Northern Trust, Border to Coast
Performance start dates: UK Listed Equity Fund, Overseas Developed Equity Fund – 26/07/2018; Emerging Markets Equity Fund – 22/10/2018

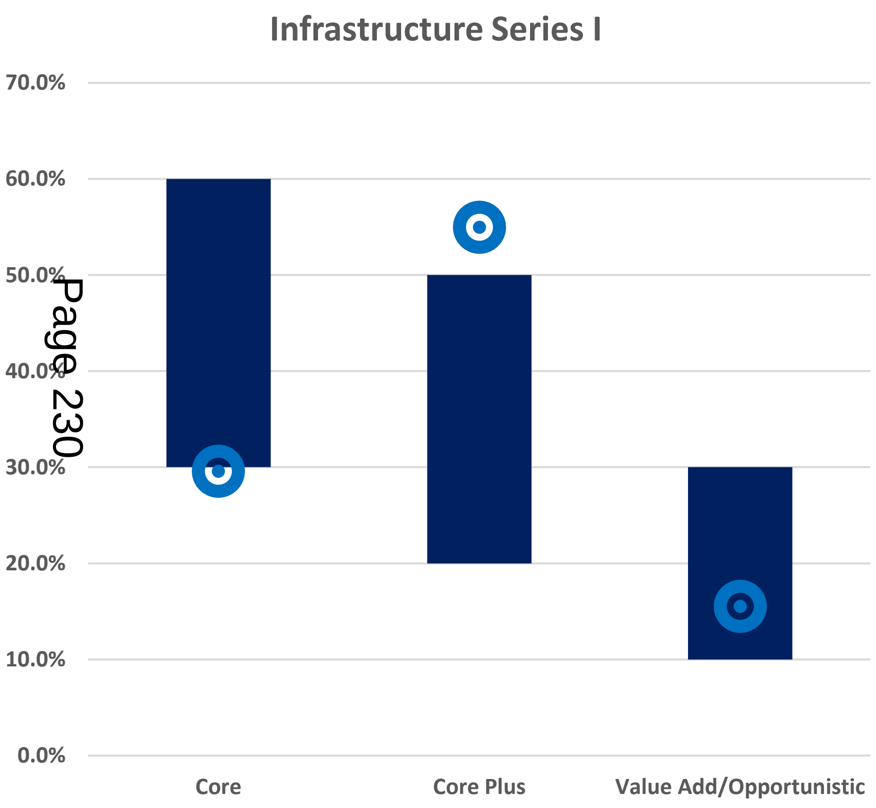
Fixed Income Funds - Performance to 30/09/2020

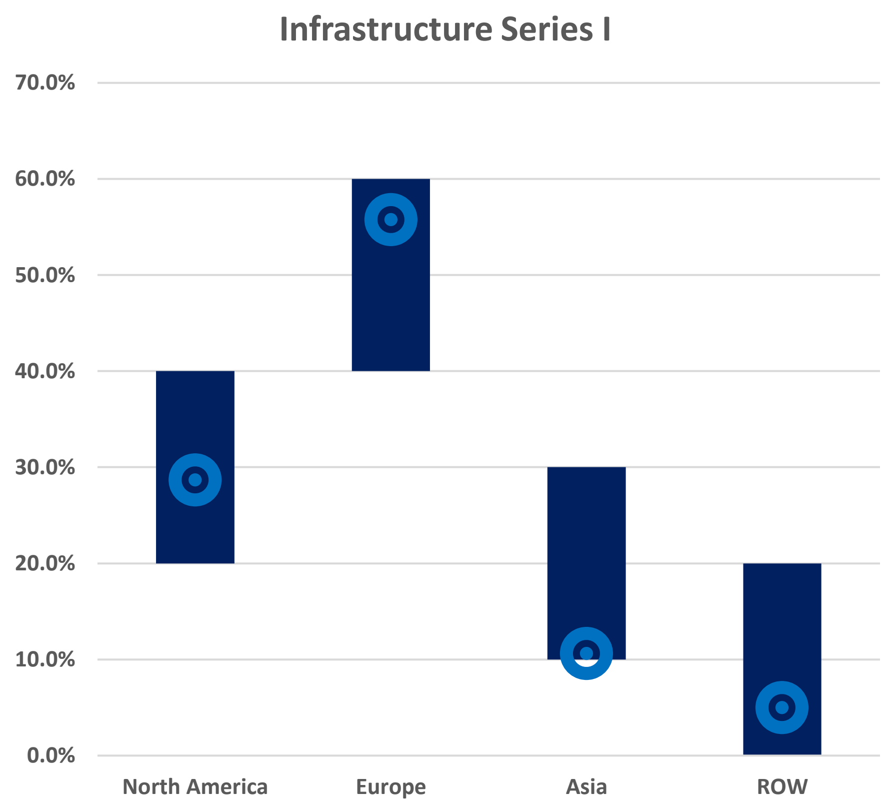
Externally Managed

Fund Name	QTD (%)			1 Year (%)			ITD (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
Sterling Investment Grade Credit	1.49	1.16	0.33	- -	- -	- -	9.91	9.08	0.83

Past performance is not a reliable indicator of future performance and is not guaranteed. Values do not always sum due to rounding.
Source: Northern Trust, Border to Coast
Performance start dates: Sterling Investment Grade Credit Fund – 18 March 2020.

Infrastructure: Asset Allocation





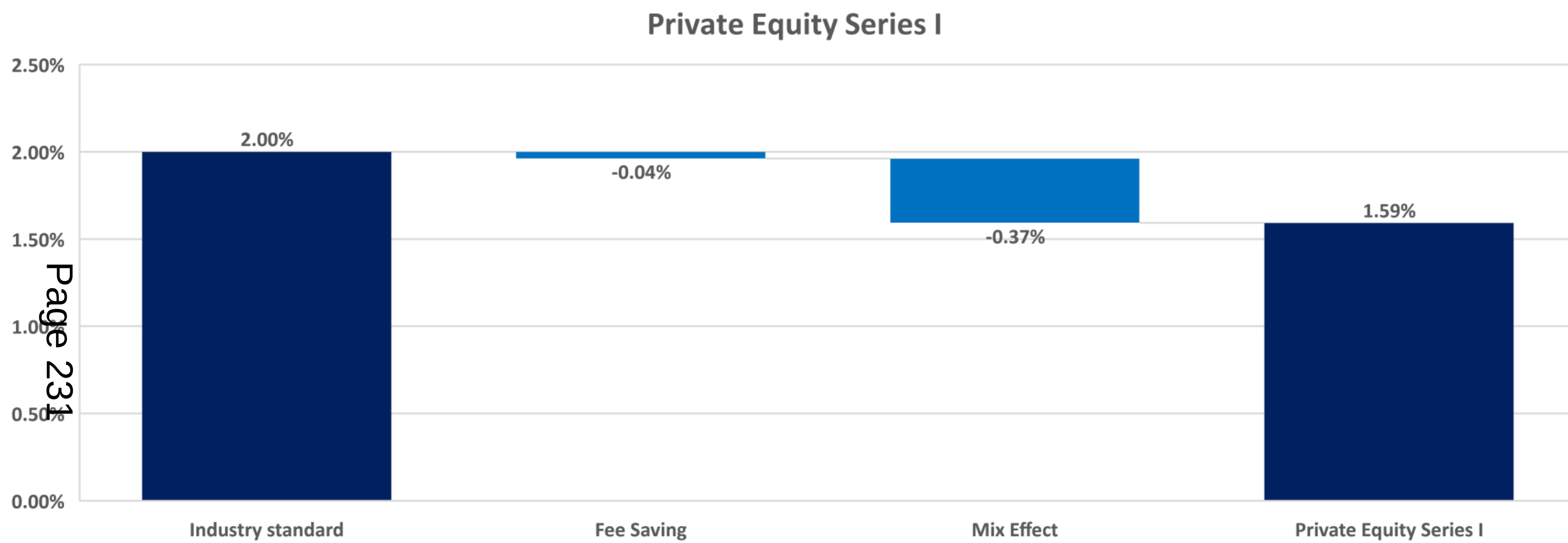
Permitted range

Current allocation

Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole

Private Equity: Estimated cost savings

Total estimated cost savings to date – c. 0.4% p.a. (c. 20% reduction in headline fees)

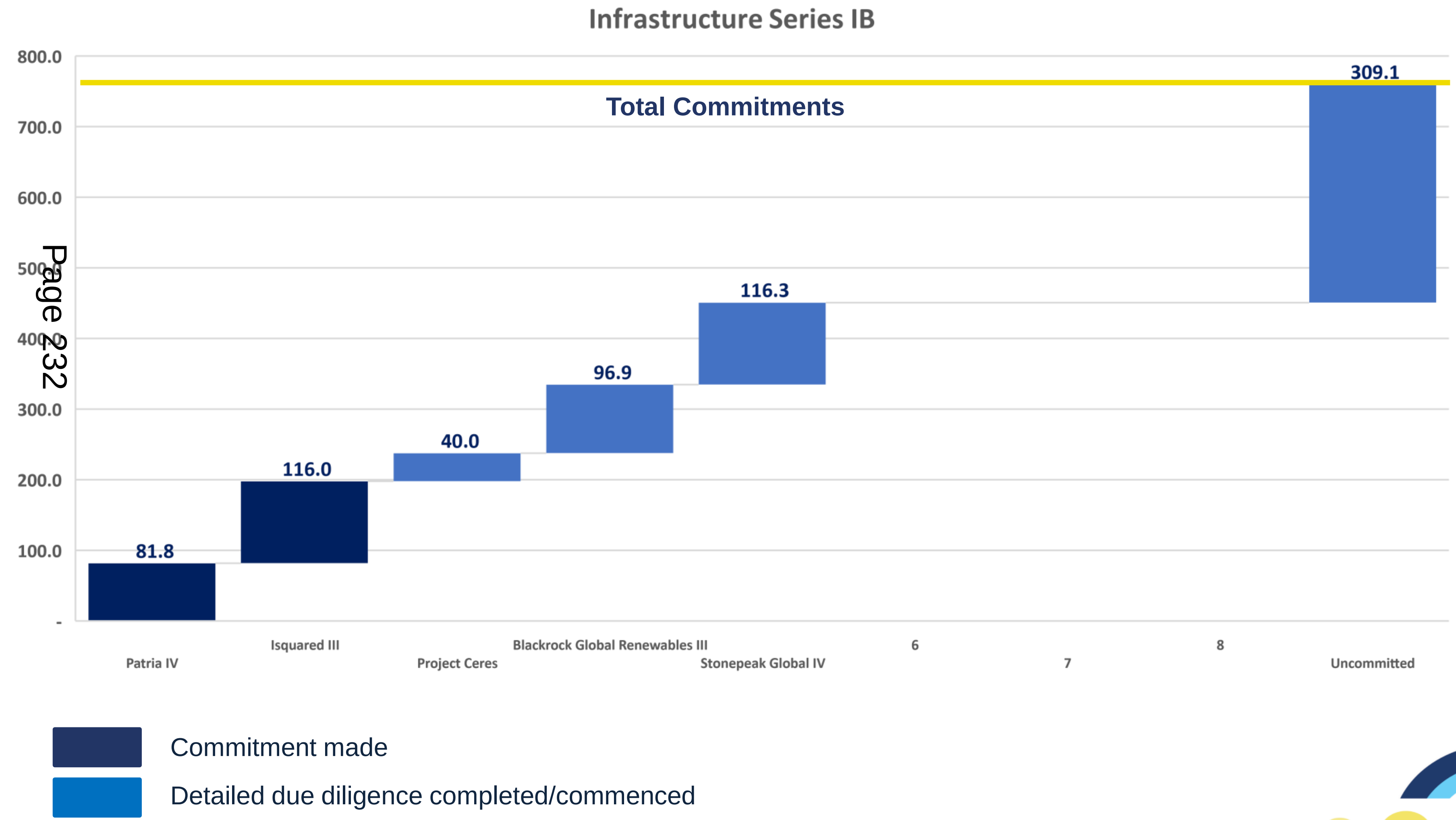


Typical industry fees

PRIVATE EQUITY	ESTIMATED ALLOCATION	MANAGEMENT FEE (%)	PERFORMANCE FEE (%)	EXPENSES (%)
Primary	50%	2.00%	20.0%	0.4%
Secondary	10%	3.00%	30.0%	0.6%
Co-Investment	20%	1.00%	10.0%	0.4%
Venture	15%	2.50%	30.0%	0.4%
Fund of Funds	5%	2.25%	30.0%	0.6%
Blended	**100%**	**1.99%**	**21.00%**	**0.43%**

Fee saving refers to explicit reductions in fees; Mix effect refers to types of investments targeted
Source: Border to Coast as at 30 September 2020

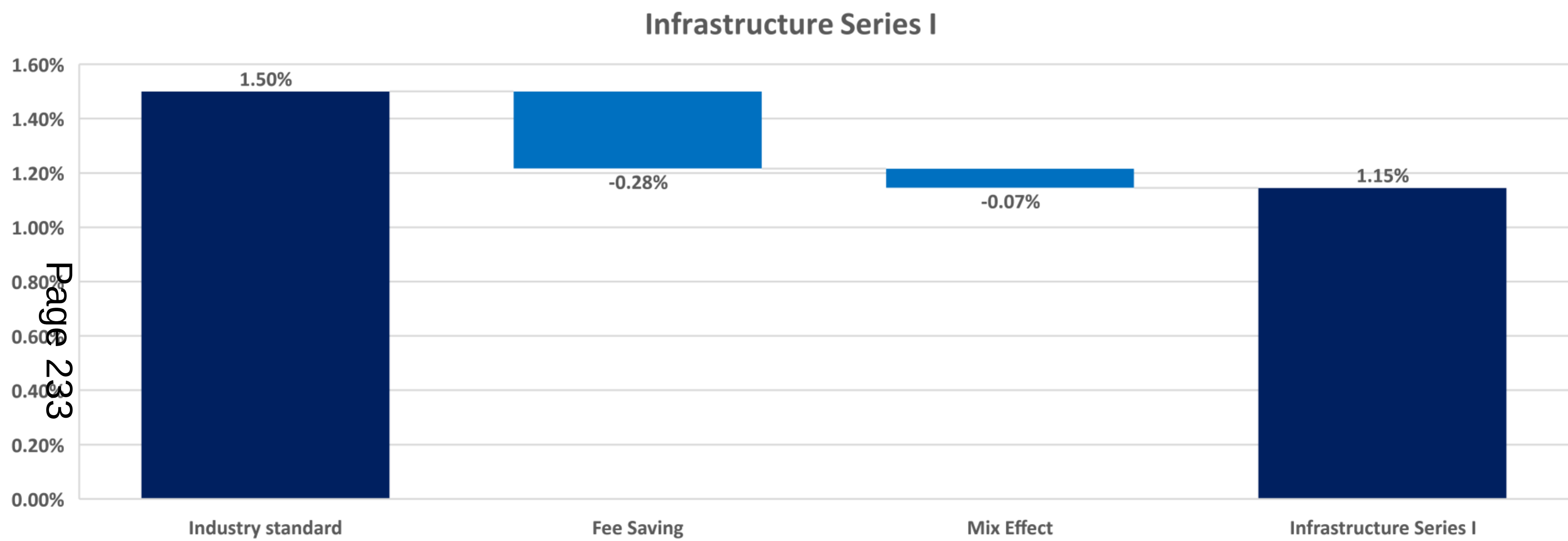
Infrastructure 1B: Commitments to Date



Note: Commitments in £m using exchange rates at time of approval
Residual uncommitted capital to be cancelled

Infrastructure: Estimated cost savings

Total estimated cost savings to date – c. 0.35% p.a. (c. 25% reduction in headline fees)



Typical industry fees

INFRASTRUCTURE	ESTIMATED ALLOCATION	MANAGEMENT FEE	PERFORMANCE FEE	EXPENSES
Core	30%	1.25%	10.0%	0.4%
Core +	50%	1.50%	15.0%	0.4%
Value Add	20%	1.75%	20.0%	0.4%
Blended	**100%**	**1.48%**	**14.50%**	**0.40%**

Fee saving refers to explicit reductions in fees; Mix effect refers to types of investments targeted
Source: Border to Coast as at 30 September 2020

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 10

PENSION FUND COMMITTEE REPORT

9 DECEMBER 2020

DIRECTOR OF FINANCE – IAN WRIGHT

INVESTMENT ADVISORS' REPORTS

1. PURPOSE OF THE REPORT

1.1 To provide Members with an update on current capital market conditions to inform decision-making on short-term and longer-term asset allocation.

2. **RECOMMENDATION**

2.1 That Members note the report.

3. **FINANCIAL IMPLICATIONS**

3.1 Decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

4. **BACKGROUND**

4.1 The Fund has appointed Peter Moon and William Bourne to act as its independent investment advisors. The advisors will provide written and verbal updates to the Committee on a range of investment issues, including investment market conditions, the appropriateness of current and proposed asset allocation and the suitability of current and future asset classes.

4.2 Brief written summaries of current market conditions from William Bourne and Peter Moon are enclosed as Appendices A and B. Further comments and updates will be provided at the meeting.

CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

TEL NO.: 01642 729040

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Independent Adviser's Report for Teesside Pension Fund Committee

William Bourne **25th November 2020**

Market commentary

1. When I last wrote in early September, I expected markets to recover on the back of the massive monetary and fiscal easing put in place in most countries after the COVID-19 epidemic. I thought economies were likely to follow, albeit not necessarily immediately. I continued to view inflation as the main long-term risk to the Fund's solvency.

2. Equity markets and most risk assets have returned to pre-epidemic levels, despite the onset of a second COVID wave. However, there has been huge divergence between the winners, largely tech stocks such as Apple, and hard-hit stocks such as airlines, shops and leisure. The latter failed to recover meaningfully from their lows, at least until a very sharp rally in early November when a possible vaccine was announced.

3. The major theme of the quarter has been a renewed form of lockdown in many countries to try and prevent health systems being overwhelmed. The authorities have once again done their best to provide ample fiscal and monetary support, but a steady stream of retail, leisure, and travel businesses have failed, unable to cope with another pause in trading, while others have chosen to make widespread redundancies.

4. The world's economy has recovered from its lows of the second quarter when many countries were in lockdown, but to date the rebound is lacklustre. The OECD's current estimate is for a 4.4% decline in the global economy in 2020 and a rise of around 5.1% in 2021. The U.K. pattern has been similar, albeit with a steeper fall and correspondingly greater recovery. The long-term OECD estimate is a global growth rate of 3.5%, not markedly changed from before the crisis. Their inflation forecast is also steady at 3.2%, although current levels in most advanced economies are below 2%.

5. The major event of the quarter was the US election. The result is still not fully formalized, but it is clear to most observers that Biden has won a convincing victory over Trump. However, the Democrats will not have a majority in the Senate, which will restrict the power of the new Administration to do anything radical. Equity markets took a positive view of this.

6. **The UK economy remains vulnerable because of BREXIT**. Six weeks before the transition period ends, there is still little clarity whether or not there will be an agreement over trade and services. A big problem is the likely lack of reciprocity between the UK and the EU on financial services. Markets have discounted some of the risks, but the potential for a worse outcome is still present. On the slightly more positive side, because of BREXIT the Chancellor is likely to tread gently in raising taxes.

7. Although attention is focused on equity markets, **bond markets will probably provide the first signs of any change in the market environment**. UK 10 year gilt yields have risen from a low of 11bps in the summer to 40bps, and their US equivalent from 50bps to 94bps. There are few signs of inflation on the High Street today, so I view this move as mainly a technical correction from the extreme yield low in the spring. There may be some volatility in UK index-linked gilts over the next few months, as it looks inevitable that the Government will rebase the payment from RPI to CPI, roughly 1% lower.

8. Private markets in 2020 are perhaps the dog which hasn't (yet) barked. In March I and others were predicting some distress in private credit in particular. However, the Federal Reserve flooded the credit markets with easy money, and so far hedge funds, private equity and private credit have shown remarkably few signs of problems, certainly compared to investors' experience in the Global Financial Crisis in 2008/9. Managers have managed their liquidity (i.e. ability to pay out redeeming investors on time) better this time round, but I shall still be surprised if there are not some upsets.

9. **Real estate remains the asset class with most uncertainty hanging over it.** Landlords have been able to receive the majority of rent owed except for in the retail and leisure industries, but generally commercial property valuations are beginning to be marked down in the more affected segments. The renewed lockdown has intensified stress in areas such retail, leisure, and travel, and at some point there will be substantial write downs here. This will present both opportunities and risks for investors.

10. In the short term I would expect the current market environment to continue because of the support provided by central banks and governments. There are some signs that we are approaching a turning point: the very narrow market leadership, the extreme valuations of some stocks, and the rise in bond yields. However, unless there are external political shocks, **I expect the catalyst for a major change to be a shift in inflation expectations leading to higher bond yields**. At the moment that does not look imminent.

11. That implies that market returns from equities and private markets will continue to be broadly in line with actuarial expectations. I am cautious about the outlook for bonds and at least in the short term for real estate.

Portfolio recommendations

12. The independent advisors are reviewing the Strategic Asset Allocation set in 2018 with Officers, and a paper on this will be brought to the March 2021 meeting.

13. The major area of uncertainty is over the real estate portfolio and the impact of lifestyle changes which may follow in the aftermath of the COVID-19 epidemic.

Investment report for Teesside Pension Fund December 2020

Political and economic outlook

At the time of writing this the pandemic continues apace with the number of the cases more than doubling and the number of deaths rising by 65%. There continues to be a significant improvement in the death rate after infection which has fallen by a third over the quarter. So there has been good news on the mortality rate and on the vaccination front where we might see mass inoculation starting in December.
The bad news has been that in the UK we have entered another lockdown and have the prospects of a stricter tier system going forward. We are not unique in reintroducing a more onerous regime.The longer these restrictions apply the more permanent long-term damage is done to the UK and World economy. For many sectors we are no longer in the era of bounce back we have entered the era of a long slog back which will take years rather than months to achieve. I consider the chancellor's forecast of a return to pre covid GDP levels by the end of 2022 as highly optimistic. Unfortunately his optimism is reflected in economic forecasts across many economies throughout the world as economists underestimate the impact of the virus. As has been noted previously there have already been significant changes in the shape of economies. Across the globe the leisure sector has been decimated; businesses have realised that they do not need as much office space as they previously thought which will have serious repercussions for the property market ; the airline industry as we knew it has disappeared and does not have the financial clout to recover; and the impact on domestic rail travel cannot even be calculated over the medium term future. These are just some of the issues and it doesn't matter how flexible labour markets are and how ingenious companies are, this repositioning of economies will take some time.

With the new vaccines coming along we can potentially see a return to a New Normal towards the end of 2021 when the world economy is likely still to be in poor shape. The return to a functioning labour market does, at least, give the opportunity for the economy to return to a more steady growth trajectory. The rollout of vaccines across the entire world is crucial to the extent to which normality can be achieved. The slower the rollout the longer restrictions of one type or another will remain. This reentry to normality will give politicians ample scope to show their skills. We can only hope that they have been on a steep learning curve.

One brighter note is the election of Joe Biden as president of the United States which ensures that fiscal stimulus will be greater and monetary policy looser than it would have been under Trump. This policy stance will be supportive to financial markets and the world economy.

Nevertheless we are in uncharted territory and huge uncertainties persist on the direction of the economy and corporate earnings. Even the long term viability of the developed western economies model is being called into question.

Markets

With all the uncertainty around at the moment and into the medium-term or even long-term future it is extremely difficult even to predict the direction of stock markets. Extreme changes in the shape of economies are likely to have adverse impacts on corporate earnings. Stock markets are clearly not looking absolutely cheap at current valuation levels. If we get downward earnings revisions they will start to look expensive. This puts us in an invidious position, because in quoted markets, equities look to be the only game in town. Given the explosion in government debt worldwide investors could be considered certifiably insane if they start committing large amounts of cash for this area. The pricing of debt is incredibly generous to governments and this has had a knock on impact on most bond and credit markets.

There will be major changes in the property sector as discussed above. This uncertainty could cause an increase in yields across the whole market.The certainty is that there will be marked relative yield changes between sectors of the market. This should mean that we find attractive opportunities within property. The difficulty might be in restructuring the portfolio efficiently as sales may well be problematic.

Within alternative investments there are likely to be products arriving which will be attractive especially in this low interest rate high liquidity environment. The increasing size and diversity of this area should enable us to invest more at attractive rates of return.

The lack of attractive investment alternatives has increased the viability of cash as an asset despite its zero return. It's abundance might put one off as an investor however.

Portfolio recommendations

Despite the central banks' efforts to flood the world economy with liquidity at ridiculously low interest rates the outlook is such that it is probably time to trim equity holdings from their current high levels given the uncertainty over earnings performance. Our present actuarial surplus suggests this is an opportune time to make this move. Property and the unquoted alternative investment sector should be our preferred investment destinations. We have already committed a large amount to alternatives and infrastructure through Borders to Coast and need to monitor closely their ability to successfully deploy the investment.

During this transition cash levels can legitimately be higher than normal to protect against stock market setbacks especially as bond markets don't appear to be an attractive investment area.
The unprecedented levels of uncertainty make it extremely difficult to make asset allocation recommendations with any certainty or conviction.
However the strong position of the fund makes it prudent to take some risk off the table. I would not consider investing in bonds as the way of taking risk off the table as in my opinion it would increase the risk of the fund failing to meet its actuarial commitments. Alternative investments, property and cash (temporarily) should be the major recipients of this risk adjustment.

Peter Moon
26 November 2020

CBRE

TEESSIDE PENSION FUND

Quarterly Portfolio Strategy Report

1st JULY – 30th SEPTEMBER 2020

Prepared 18th November 2020

Agenda Item 11

PREPARED FOR

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CONTENTS

1 EXECUTIVE SUMMARY

CBRE

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EXECUTIVE SUMMARY
Portfolio Strategy

You have advised us that your objective is to increase the property portfolio to £350m in a risk controlled manner.

CBRE Recommended Strategy

- To diversify the portfolio through different property types, unit sizes, occupier businesses, quality, income expiry and geographical regions.
- To make acquisitions and disposals that help balance the portfolio's overall lease expiry profile.
- Maintain a long term heavily weighted position in industrial and retail, alongside an under weight position in offices. Acquire prime, well let properties, together with some RPI linked assets.
- Keep the vacancy rate lower than typical institutional investment portfolio levels, whilst reducing income risk in particular years.

SECTOR	CURRENT WEIGHTING	TARGET WEIGHTING
Industrial	47.9%	40.2%
Retail Warehouse	25.1%	30.0%
Long Income	11.0%	18.5%
Offices	2.7%	2.5%
High Street Retail	13.3%	8.8%
	100%	100%

EXECUTIVE SUMMARY
Portfolio Profile

- At 30th September 2020, the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £267.35m. This reflects an overall Net Initial Yield of 5.59%, and an Equivalent Yield of 5.90%.

- The portfolio comprises principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprise 86.3% of the portfolio by capital value. There are 75 demises and a total net lettable area of 1,949,442 sq ft.

- The weighted average unexpired term is 7.6 years to the earlier of first break or expiry, and 8.8 years to expiry, ignoring break dates.

- The portfolio also has the following characteristics:

  - The vacancy rate is currently 2.45% of Estimated Rental Value. By comparison, the 'MSCI Quarterly Index Q3 2020 Void Rate" is 7.4%.

  - The top ten tenants constitute 53.4% of the total gross annual income of the portfolio, while the top twenty tenants constitute 87.7%.

  - Current gross passing rent is £16,218,173 per annum, against a gross current market rent of £16,619,463 per annum, making the portfolio slightly reversionary in nature.

EXECUTIVE SUMMARY
Portfolio Activity

Investments

Sales

- No sales this period.

Acquisitions

- The Fund has agreed terms to purchase a highly regarded long-let supermarket for £20,700,000, reflecting a NIY of 4.48% and providing an income upon acquisition of £914,587 pa. The unexpired term is approximately 18.5 years. The Lease is subject to 5 yearly RPI linked rent reviews with a collar and cap of 1%–4% pa compounded.

EXECUTIVE SUMMARY
Portfolio Activity & Strategy

Total Portfolio Arrears at 10th November 2020

The total Collectable Arrears on the entire portfolio is £1,274,711 as at 10th November. The Collectable Arrears exclude the following:

• Tenants that are insolvent (99p Stores Limited at Cirencester, Laura Ashley Ltd at Congleton, Homestyle Group Operations Ltd at Congleton) and also tenants that have overall credit balances on their accounts.

Below, is a summary of the top ten tenants with the greatest arrears, which account for 80.4% (£1,024,832) of the total arrears:

• River Island Clothing Co. Limited (Lincoln) – Total arrears of £206,250 (16.2% of the collectable arrears). This tenant has not yet been granted any rent concession and the arrears relate solely to their monthly rents from 1st April to 30th November (8 months). We understand that River Island may enter a CVA and they are negotiating with landlords over rent reductions. We are in negotiations with the tenant. On 7th October we received their first payment of £13,750, being 50% of one month's rent.

• P&O Ferrymasters Limited (Lutterworth) – Total arrears of £202,261 (15.9% of the collectable arrears). This relates mainly to the September quarter rent plus some historic insurance charges. We are continuing to chase for payment. This lease expires on 24th December and the tenant is not in occupation (the unit is sub-let to ASDA). A new lease to ASDA is being finalised with an early surrender from P&O. All sums due will be collected upon completion.

• Nuffield Health (Guildford) – Total arrears of £149,026 (11.7% of the collectable arrears). This relates mainly to the June and September quarter rent but also includes insurance and head landlord service charges. The tenant advised that they would begin to pay rent monthly from their date of reopening (25 July) within any balance prior to opening deferred to December. We have received no payment towards their June rent but they have begun to pay their September quarter monthly and we have received their first two instalments.

• Peacocks Stores Limited (Cirencester) – Total arrears of £90,579 (7.1% of the collectable arrears). This tenant has not yet been granted any rent concession and the arrears relate to their monthly rent from 28th March through to 27th November (8 months), plus service charge and insurance premium, which we are continuing to chase for payment. No payments have been received.

• Unipart Logistics Limited (Rugby) – Total arrears of £86,863 (6.8% of the collectable arrears). They are now paying their rent monthly and have paid their first two instalments. This sum is the final instalment of their September quarter rent.

- **Boots UK Limited (Congleton)** – Total arrears of £85,829 (6.7% of the collectable arrears). This tenant has not yet been granted any rent concession and the arrears relate mainly to their monthly rents from 1st April to 31st November (8 months). Payments towards service charge are being made monthly.
- **Sportsdirect.com Retail Limited (Cirencester)** – Total arrears of £84,504 (6.6% of the collectable arrears). This tenant has not yet been granted any rent concession and the arrears relates to their monthly rent from 28th March through to 27th November (eight-months), plus service charge and insurance premium, which we are continuing to chase for payment. No payments have been received.
- **Pizza Hut (UK) Limited (Ipswich)** – Total arrears of £50,461 (4.0% of the collectable arrears). This tenant has not paid their June or September quarter rents and have insurance and service charge also outstanding. The tenant entered a CVA in September and we are in negotiations regarding a continued re-occupation.
- **Marks & Spencer Simply Food Ltd (Congleton)** – Total arrears of £38,558 (3.0% of the collectable arrears). This tenant is now paying their quarterly rent in monthly instalments but is not paying service charge. These arrears relate to their third rent instalment for the September quarter (£21,375) with the remaining balance being service charges.
- **Aurum Group Limited (Newcastle upon Tyne)** – Total arrears of £30,500 (2.4% of the collectable arrears). This relates solely to one third of their September quarter rent. This tenant has reliably paid it's rent on a monthly basis since 2012.

The remaining £249,879 (19.6% of the collectable arrears) of arrears is spread across 60 tenants, ranging from £30,105 to £32.24.

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EXECUTIVE SUMMARY

Quarterly Rent Collection Statistics

Quarterly Rent Collection Statistics at 10th November 2020

	Rent Due 29 September	Collectable Rent	Quarter Date up to and including 29/09/2020	Week 1 up to and including 06/10/2020	Week 2 up to and including 13/10/2020	Week 3 up to and including 20/10/2020	Week 4 up to and including 27/10/2020	Payment after 27/10/2020	Difference
Targets				92.00%	96.00%	98.00%	99.00%		
	4,050,152.71	4,050,152.71	2,179,602.90	419,391.50	60,469.69	285,367.36	151,903.42	325,977.93	627,439.91
Non Collectable Total		0.00							
Collections Including non collectables			53.82%	64.17%	65.66%	72.71%	76.46%	84.51%	
Collections Excluding non collectables			53.82%	64.17%	65.66%	72.71%	76.46%	84.51%	

These figures relate to rents that only became due on the September English Quarter Day (29th September 2020).

The difference of £627,439.91 relates to a number of Tenants and is due to varying situations across the portfolio, on a Tenant specific basis. The 5 largest debtors for the September quarter include River Island Clothing Co. Limited (£206,250), P&O Ferrymasters Limited (£202,261), Nuffield Health (£149,026), Peacocks Stores Limited (£90,579), Unipart Logistics Limited (£86,863) and Boots UK Limited (£85,829).

All tenants are either being chased or have paid, with payment receipt pending bank transfer completion. A number of Tenants are subject to varying temporary arrangements with regards to their rental payments as a result of the ongoing Covid-19 pandemic. These are being handled on a tenant specific basis, with each request and agreement being considering in isolation.

CBRE have collected 85% of collectable rent (to 10th November 2020). By comparison, the total collected within the same timeframe in 2019 was 97% of the collectable rent.

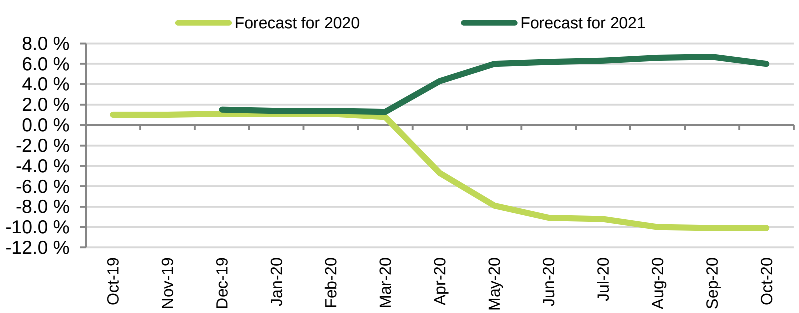
2 ECONOMIC PERFORMANCE AND PROPERTY MARKET

PROPERTY MARKET & SECTOR FORECASTS

Economic Performance Q3 2020

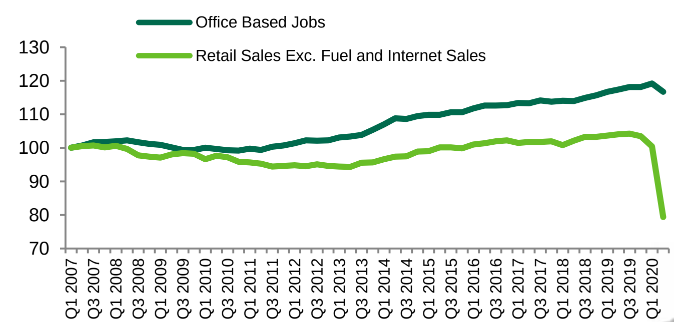
- The UK economy grew by 1% in September, and had recovered a large part of the output lost during the spring lockdown. Taking the whole of the third quarter (Jul-Sep) the UK economy grew by 15.5% QoQ, compared with the previous quarter. The rate of growth has slowed in recent months, and in September the economy was still around 8% smaller than in February (and this was before the latest set of restrictions came in to place).
- Looking at the sectors, the service sector remained around 9% below February levels. In September, the hospitality sector fell back after a strong performance in August. Manufacturing is down around 8% on February levels. Car and other transport equipment remains one of the weakest performing industries, down over 20% on February.
- While household consumption bounced back in Q3, business investment remains 20% below pre-pandemic levels.
- CBRE are forecasting GDP growth of 5.6% in 2021, following an 11.6% fall in 2020. Implicit in our base case is that we reach an FTA with the European Union by the January 2021 deadline and that a vaccine becomes available at the end of the first quarter of 2021 (the end of the Winter).

Evolution of UK GDP Growth Forecast



Source: HM Treasury Consensus

Economic Drivers of Commercial Property Demand

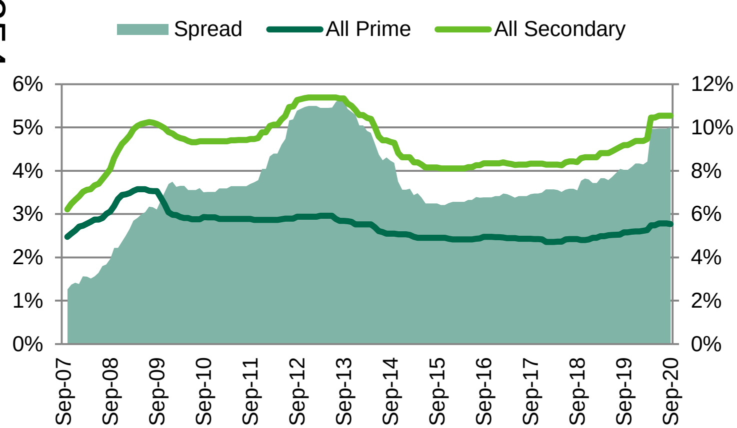


Source: CBRE, Oxford Economics, ONS

PROPERTY MARKET & SECTOR FORECASTS
Property Market Q3 2020

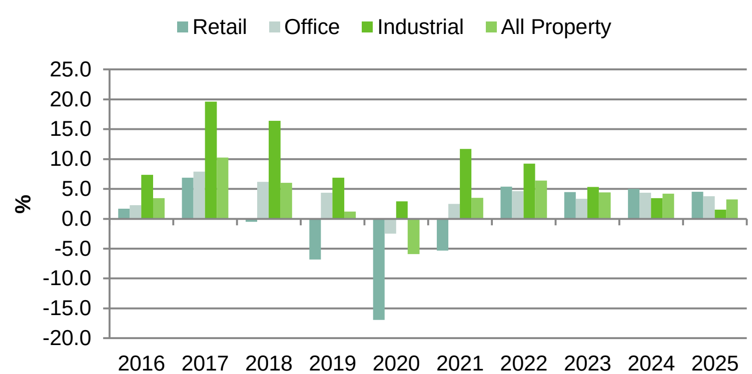
- Year on year total returns for All UK Property fell by -2.9% (-7.2%* capital return, 4.6%* income return) for the period Q2 2019 to Q2 2020**. Year on year returns at this level are significantly lower than the 5-year average as the down draught of the pandemic hits performance, especially the Retail sector.
- Quarterly total returns for All UK Property for Q2 recorded -1.9% (-3.0% capital return, 1.0% income return).
- Industrials total returns were flat over Q2 2020 (-1.0% capital return, 1.0% income return).
- Rental values for All UK Property fell by -1.1% over the second quarter of 2020. This figure was largely pulled down by a fall of -3.0% in the Retail sector, plus marginal falls in the office and industrial.

Prime Vs Secondary All Property Yields (excl. Central London)



Source: CBRE Monthly Yields, Sept 2020

Property Total Returns



Source: MSCI, CBRE, August 2020

* *Return figures will not always sum due to separate compound calculations*

** *Based on CBRE Monthly Index, all property total returns Sept 2019*

PROPERTY MARKET & SECTOR FORECASTS
Property Market Q3 2020 Transactions

- Total UK investment reached £8.0bn in Q3 2020. This was double the investment seen in Q2 (£3.9bn) due to the easing of the UK's restrictions in the face of the COVID-19 pandemic. However, it was almost half the 5-year quarterly average of £15.0bn, as market uncertainty deterred investors. YTD volumes for 2020 reached £25.9bn, which was 20% down on the same period last year (£32.4bn).

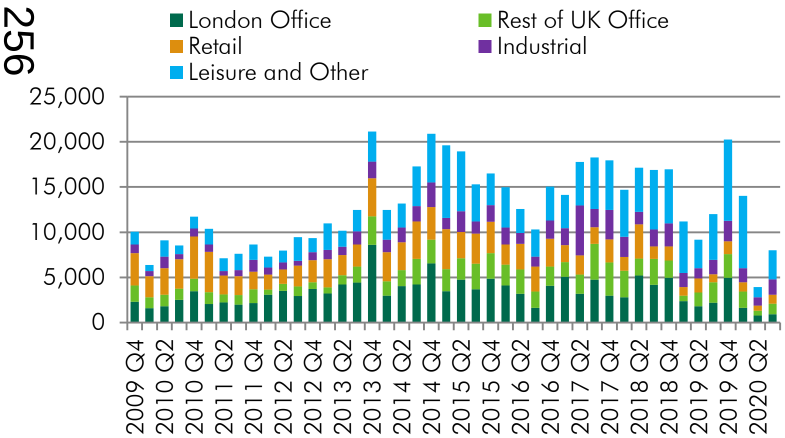
- Global travel restrictions hindered international investment in Q3, as overseas investors were responsible for 34% of capital invested into UK commercial real estate. This performance is below the 10-year quarterly average of 43%.

- Investment transactions for 'All Offices' totalled £2.1bn in Q3 2020. Investment volumes in Central London offices were £904m in Q3, a slight rise on Q2 (£780m) but significantly below the 5-year quarterly average of £3.3bn. The largest investment during this quarter was 25 Cabot Square in London Docklands, purchased for £380m.

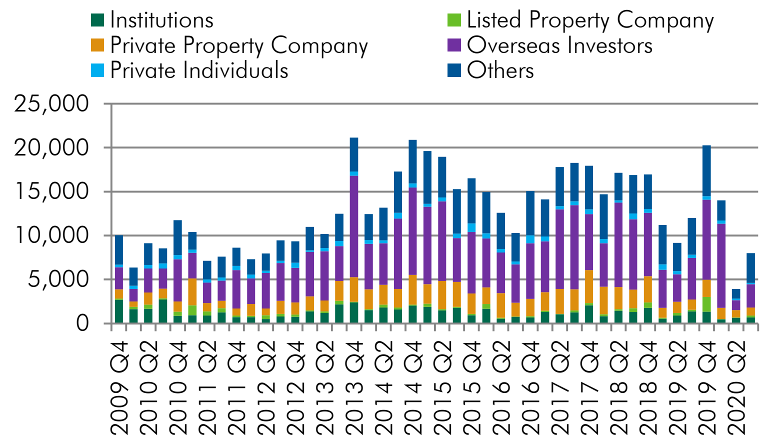
PROPERTY MARKET & SECTOR FORECASTS
Property Market Q3 2020 Transactions

- The Industrial sector saw £1.7bn in transaction activity in Q3 2020. This included three deals over £150m.
- Retail transactions totalled £1.0bn for the quarter, with the largest transaction being the £157m sale of the RDI REIT retail park portfolio.

Commercial Property Investment Transactions (£millions)



Source: : CBRE, Property Data, October 2019



Source: : CBRE, Property Data, October 2019

PROPERTY MARKET & SECTOR FORECASTS

UK Returns Forecast Q3 2020

				Forecast					Annualised
	2018	2019	2020	2021	2022	2023	2024	2025	2021-2025
Total return: % per year									
Retail	-0.5	-6.8	-16.9	-5.3	5.4	4.5	5.0	4.5	2.7
Office	6.2	4.4	-2.5	2.5	4.6	3.3	4.4	3.8	3.7
Industrial	16.4	6.9	2.9	11.7	9.2	5.3	3.5	1.5	6.2
All Property	6.0	1.2	-5.9	3.5	6.4	4.4	4.2	3.3	4.4
Income return: % per year									
Retail	5.1	5.3	5.5	6.1	6.1	5.9	5.9	5.9	6.0
Office	4.0	4.1	3.9	4.0	3.9	3.9	3.9	3.9	3.9
Industrial	4.5	4.4	4.3	4.2	4.1	4.0	4.0	4.1	4.1
All Property	4.6	4.6	4.5	4.5	4.4	4.3	4.3	4.3	4.3
Capital growth: % per year									
Retail	-5.3	-11.6	-21.3	-10.8	-0.7	-1.4	-0.9	-1.3	-3.1
Office	2.1	0.3	-6.2	-1.4	0.7	-0.5	0.5	-0.1	-0.2
Industrial	11.4	2.4	-1.3	7.1	4.9	1.2	-0.6	-2.5	2.0
All Property	1.4	-3.3	-10.0	-0.9	2.0	0.1	-0.1	-1.0	0.0
Nominal rental value growth: % per year									
Retail	-2.2	-4.9	-9.8	-8.7	-3.6	-1.2	-0.2	0.1	-2.8
Office	0.8	1.5	-1.4	-3.0	-0.1	1.7	2.8	2.5	0.8
Industrial	4.6	2.9	1.3	1.8	2.1	0.7	0.7	0.5	1.2
All Property	0.5	-0.6	-3.6	-2.5	0.0	0.6	1.1	1.1	0.1
Equivalent Yields - % at end year									**Change pp**
Retail	5.7	6.1	7.0	7.1	6.9	6.8	6.8	6.8	-0.2
Office	5.6	5.6	5.7	5.6	5.5	5.6	5.7	5.7	0.0
Industrial	5.3	5.3	5.4	5.1	4.9	4.8	4.9	5.0	-0.3
All Property	5.5	5.6	5.8	5.7	5.5	5.5	5.5	5.6	-0.2

*Forecast figures based on Q2 2020 quarterly valuations

In 2020 the spread in performance between the sectors will be wide with the sector performance divergence persisting over time. The covid-19 pandemic has hastened the structural shifts in consumer spending habits and brought about fears around the outlook for the office sector.

The All Property Total Returns for the 2019 outturn was 1.2%, and further losses are expected at the aggregate level in 2020 (forecasted at -5.9%). Retail is forecast to post losses of -16.9% in 2020 with significant falls in values, particularly in shopping centres. Supermarkets have performed comparatively well. The industrial sector will continue to outperform other sectors. The demand for logistics space, enhanced by the shift to higher levels of online shopping, have supported the industrial sector. Continued demand from investors has pushed industrial yields down. We expect All Property Returns to recovery marginally in 2021 with a stronger Return expect in 2022. On the whole, the outlook is driven by the rate of economic recovery. The 5-year annualised total return for 2021-2025 is 4.4% per annum.

Rental falls are forecast in the near term for all sectors except industrial property.

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3 PORTFOLIO STRATEGY AND FORECASTING

CBRE

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PORTFOLIO STRATEGY AND FORECASTING
Portfolio Strategy

Top Down Strategy

- The Teesside Pension Fund was valued at £4.150bn in June 2020. The Direct Property Portfolio held by the Fund was valued at £267.35m (September 2020), equating to 6.4% of overall Fund value. The Fund's level of real estate exposure is generally considered underweight, when compared with similar pension funds.

- We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio, as well as diversifying the lease expiry profile.

- In addition to recommendations on industrial purchases, we may also recommend alternative and long-let investments that offer good covenants, attractive yields and long unexpired terms; these may include hotels, car showrooms, healthcare, leisure, supermarkets and student housing.

- Set against a backdrop of low economic growth, we will seek to make purchases where both occupational and investment supply and demand conditions are strong. This will ensure that purchases are accretive to the portfolio's performance.

- As we continually assess all of the properties within the portfolio, we will also consider sales based on asset specific considerations.

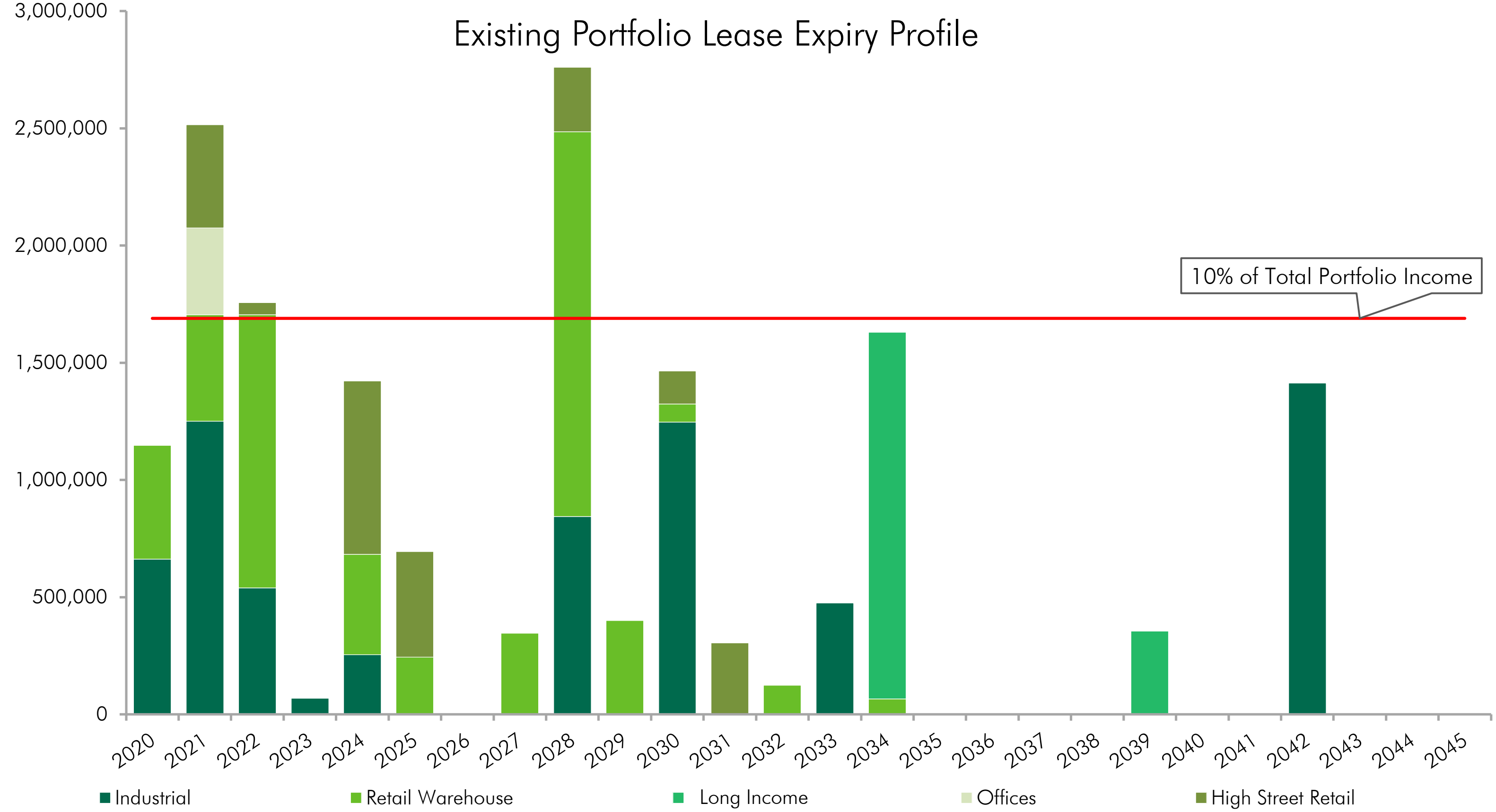
- A key driver of the portfolio performance will continue to come from effective asset management of the existing stock to maximise rental income and extend lease lengths.

- A graph showing the expiry profile, per sector, is shown overleaf.

PORTFOLIO STRATEGY AND FORECASTING

Portfolio Strategy

Lease Expiry Profile



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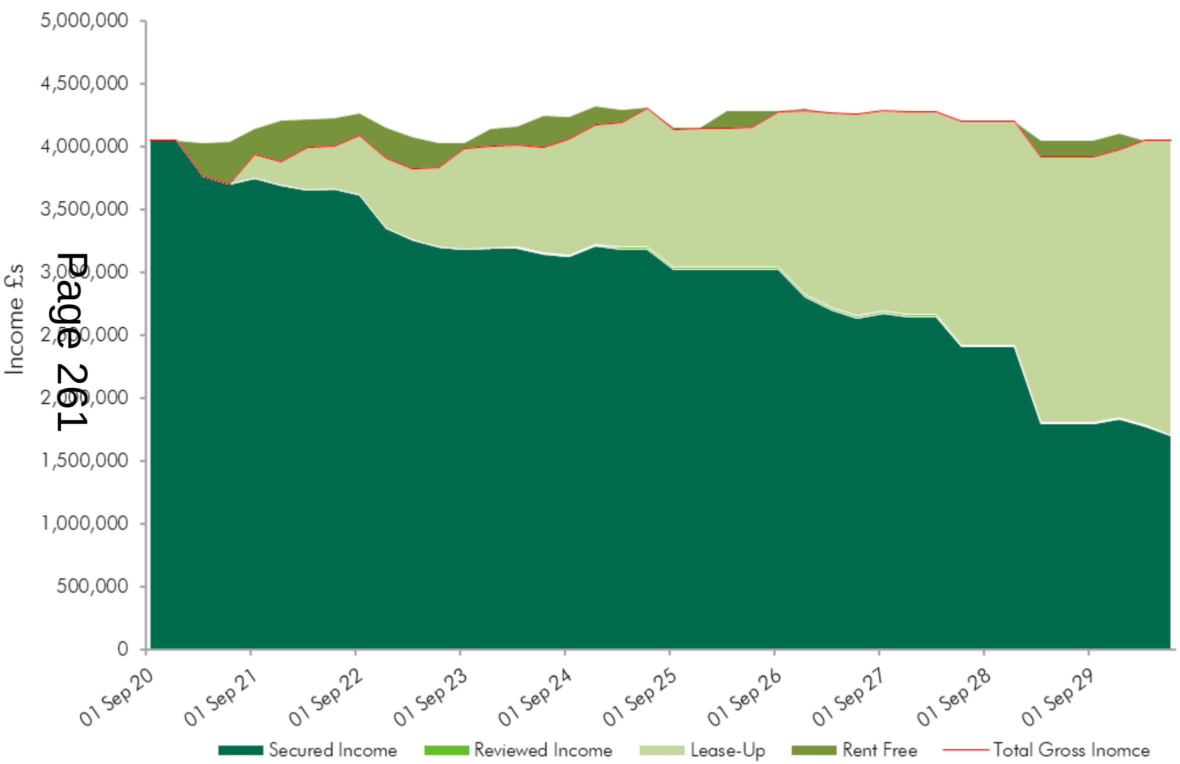
PORTFOLIO POSITIONING AND FORECASTING

Portfolio Analysis

Existing Portfolio Income Profile



The income forecast includes our current rental growth projections. These have been adapted to reflect anticipated rental movement, based on the quality and sub-location of individual assets.

REGION	% OF PORTFOLIO CAPITAL VALUE
London	12.5%
South East	9.2%
South West	9.4%
East	6.2%
West Midlands	26.8%
North East	30.2%
North West	4.0%
Scotland	1.7%
Total	**100%**

SECTOR	% OF PORTFOLIO (Rental Value)
Industrial	40.0%
Retail Warehouse	32.1%
Long Income	11.4%
Offices	2.3%
High Street Retail	14.2%
Total	**100%**

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TOP 20 TENANTS (BY CURRENT RENT)

POSITION	TOP 20 TENANTS	TOTAL AREA	CURRENT RENT (£PA)	ERV (£PA)	% OF PORTFOLIO	NO. OF LEASES	FIRST LEASE EVENT
1	Omega Plc	320,815	£1,413,574	£1,413,574	8.45%	1	09 September 2024
2	B&Q plc	107,068	£997,000	£1,025,000	5.96%	2	31 January 2027
3	Royal Mail Group Limited	207,572	£899,162	£1,000,000	5.37%	1	23 September 2030
4	DHL Supply Chain Ltd.	146,138	£868,635	£875,000	5.19%	1	28 September 2021
5	Libra Textiles	129,952	£850,000	£850,000	5.08%	1	01 August 2034
6	Brunel Healthcare	136,342	£843,761	£650,000	5.04%	1	10 April 2028
7	H&M	32,501	£740,000	£740,000	4.42%	1	23 June 2024
8	Tesco Stores Limited	25,084	£706,785	£570,000	4.22%	1	28 July 2034
9	P&O Ferrymasters Limited	122,157	£662,000	£735,000	3.96%	1	25 December 2020
10	Matalan Retail Limited	51,753	£500,000	£465,000	2.99%	1	27 November 2028
11	Halycon Fine Art Ltd	38,722	£475,000	£500,000	2.84%	1	22 December 2028
12	Barclays	18,833	£450,000	£450,000	2.69%	1	23 June 2025
13	HSBC Bank Plc	2,016	£440,000	£460,000	2.63%	1	18 October 2021
14	Wickes Building Supplies Limited	28,338	£396,750	£396,750	2.37%	1	29 September 2028
15	DSG Retail Limited (t/a Currys/PC World)	25,000	£375,000	£350,000	2.24%	1	28 September 2022
16	B&M Retail Limited (t/a B&M Homestore)	25,000	£375,000	£350,000	2.24%	1	28 September 2022
17	Institute of Cancer Research	9,502	£371,420	£371,420	2.22%	1	17 February 2021
18	Nuffield Health	26,458	£354,715	£331,000	2.12%	1	04 April 2039
19	Pets at Home Ltd	15,577	£325,825	£265,000	1.95%	2	05 January 2024
20	Aurum Group Limited	1,440	£305,000	£305,000	1.82%	1	01 March 2031
	TOTAL	**1,470,268**	**£12,349,627**	**£12,102,744**	**73.8%**	**22**	

4 PORTFOLIO ACTIVITY

CBRE

teesside pension fund

PORTFOLIO ACTIVITY

ASSET MANAGEMENT COMMENTARY

LUTTERWORTH, MAGNA PARK

November 2020

A new 10-year reversionary lease has been agreed with ASDA at a rent of £755,000 pax, an increase of 14%. The deal is currently in solicitors hands and is due to complete imminently.

STOW-ON-THE-WOLD, TESCO STORE

August 2020

The property is subject to a rental increase in September 2020 inline with the annual RPI uplifts as stipulated within the lease. The uplift will achieve a 2% rental increase for the Fund to a new annual rent of £720,921 pax.

OMEGA, THORNE

August 2020

A new reversionary lease with Omega at Capitol Park, Thorne, has recently completed. The reversionary lease extends the term for a further 8-years providing the Fund index linked income until 2042.

LONDON, GLOUCESTER ROAD

June 2020

Terms have been agreed for a new 10-year lease to American Dry Cleaners Limited with the tenant benefit of a break at the expiry of 3.5 years. A stepped rent has been agreed up to and including the lease's 5th anniversary.

CBRE

For more information regarding this presentation please contact:

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

PENSION FUND COMMITTEE REPORT

9 DECEMBER 2020

DIRECTOR OF FINANCE – IAN WRIGHT

XPS PENSIONS ADMINISTRATION REPORT

1. PURPOSE OF THE REPORT

1.1 To provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

2. RECOMMENDATIONS

2.1 That Board Members note the contents of the paper.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications for the Fund.

4. BACKGROUND

4.1 To enable the Board to gain an understanding of the work undertaken by XPS Administration and whether they are meeting the requirements of the contract. The report is contained within Appendix A.

CONTACT OFFICER: Graeme Hall (Operations Manager)

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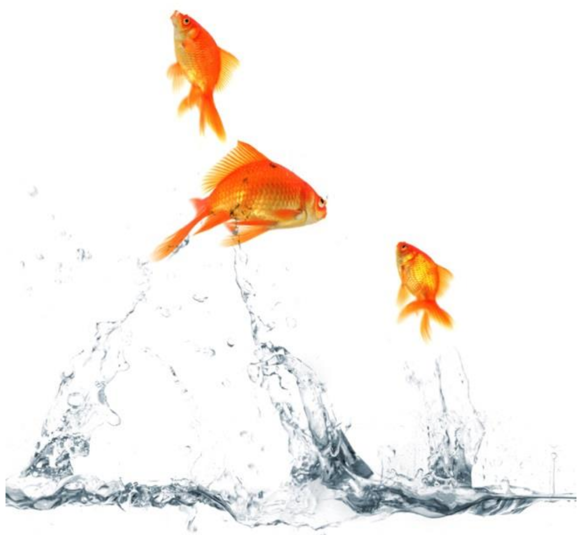
XPS Administration



Teesside Pension Fund

Service Delivery Report

2020/21

Teesside Pension Fund

Headlines

McCloud judgement

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant case.

The case concerns the transitional protections provided to older members of the judges and firefighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme changes. On 20 December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

A consultation document was issued on the proposed remedy in respect of the LGPS. The consultation covers both future provisions and proposed retrospective changes to enable the Scheme to remedy the findings of discrimination. Draft amending legislation accompanied the consultation which had a closing date of 8 October 2020.

The proposals contained in the consultation go beyond the immediate remedy of age discrimination that the McCloud judgement seeks to rectify and also contain broader changes which MHCLG propose to implement to rectify what they view as historic anomalies that have existed since the introduction of the new Scheme in 2014, some of which would require retrospective amendment.

The immediate remedy proposals have significant administrative impact and the more extensive proposals will place a further administrative burden upon the Fund, XPS and employers within the Fund. A response was submitted to the consultation agreeing with the broad principles of the remedy but highlighting the major administrative impact that the changes will impose.

Legislation on restricting exit payments (£95k cap)

The Restriction of Public Sector Exit Payments Regulations 2020 ('the Cap Regulations'), will come into force on 4 November 2020, in advance of the changes to LGPS regulations proposed by MHCLG in the further reform consultation. These changes will amend the LGPS regulations to provide for the payment of reduced pensions in whole (as is the current provision) and in part.

From 4 November 2020 up to the enactment of the MHCLG further reform proposals there is a position of legal uncertainty. This is due to the apparent discrepancy between the obligations on scheme employers under the Cap Regulations to limit strain cost payments, and the requirement for administering authorities to pay unreduced pensions to qualifying scheme members under existing LGPS regulations.

We understand there will shortly be a communication from Government to administering authorities on this matter.

The LGPS Advisory Board (SAB) has requested the views of Counsel on the risks of challenge to administering authorities and the obligations of scheme employers during this period of legal uncertainty.

SAB has received initial advice but has followed this up with requests for further clarification on which they hope to have by early next week. Once that is received and subject to the necessary HMT guidance and Directions being made available, SAB intends to publish the advice along with some commentary.

SAB appreciates that there is significant uncertainty at this time, hence why it felt legal advice would be important before anything further was published on this matter.

This update can be found in the News and Updates page of www.lgpsregs.org.

Regulations and guidance

The LGPS (Amendment) (No2) Regulations 2020 – exit credits

On 27 February 2020, MHCLG published a partial response to the consultation covering changes to the local valuation cycle and the management of employer risk. The response covered the proposals on exit credits only.

On 26 August 2020, MHCL G published a second partial response to the Local valuation cycle and the management of employer risk consultation that was issued in May 2019.

The response confirms that the LGPS 2013 Regulations will be amended to allow greater flexibility on employer exit payments and the ability to review employer contributions between valuations. The LGPS (Amendment) (No.2) Regulations 2020 provide for the changes and were laid on 27 August 2020. They came into effect from 23 September 2020.

A further response will be made by MHCLG in relation to the other proposals in the consultation (changes to the local fund valuation cycle, interim valuations and the status of further education, Sixth Form College and higher education corporations in England and Wales) in due course.

Covid-19

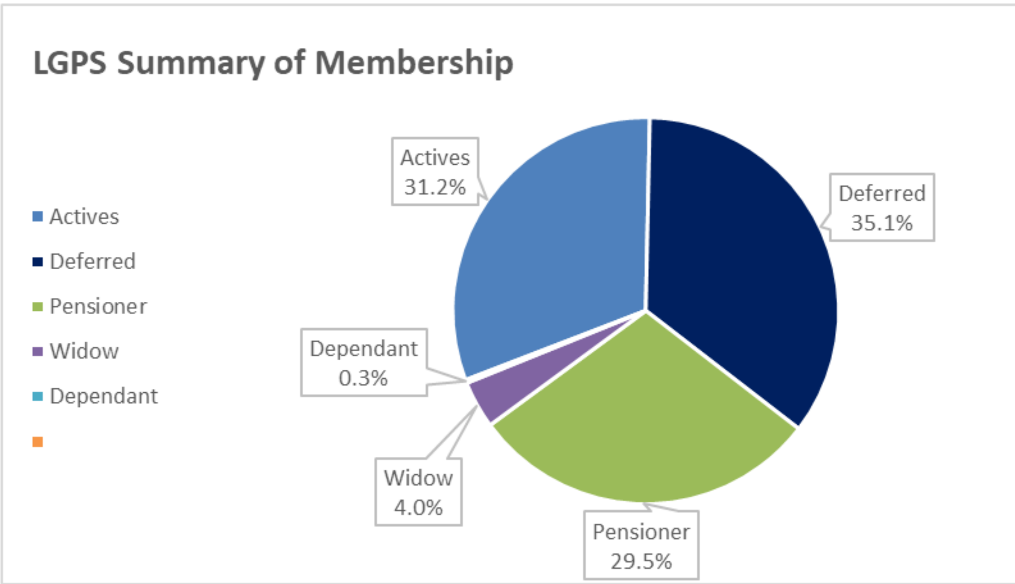
XPS update

Following the outbreak of Covid-19, and subsequent lockdown, XPS quickly moved to enable all staff to be able to work from home. This involved the provision of laptops for all staff and development of necessary software to allow secure remote working.

Although the majority of staff continue to work from home, there has been an increasing number returning to a more normal office working environment. XPS will not be looking to enforce this on any member of the Middlesbrough office if they feel they are being put at risk. At this moment there is no timeframe, nor rush, to commence a full return to an office environment. XPS will maintain a watching brief on governmental guidance.

Membership Movement

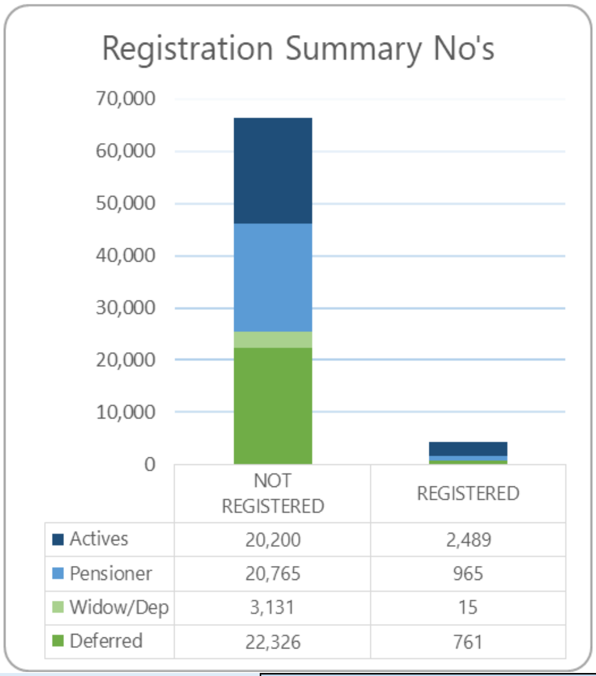
	Actives		Deferred		Pensioner		Widow/Dependent	
Q2 2020/21	23,018	▼	25,936	▼	21,763	▲	3,134	▲
Q1 2020/21	23,243	▲	25,958	▲	21,538	▲	3,101	▼
Q4 2019/20	22,997	▼	25,799	▼	21,521	▲	3,114	▲
Q3 2019/20	23,123	▲	25,948	▼	21,355	▲	3,093	▲
Q2 2019/20	22,463	▼	26,136	▲	21,179	▲	3,071	▲

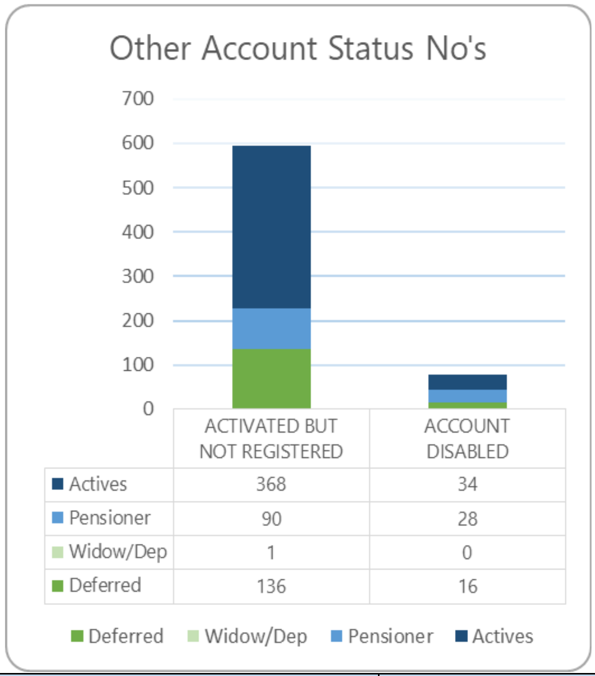


Member Self Service

Below is an overview on the activity and registration of the Member Self Service System:

	NOT REGISTERED	REGISTERED	ACTIVATED BUT NOT REGISTERED	ACCOUNT DISABLED	TOTAL
Actives	20,200	2,489	368	34	**23,091**
Deferred	22,326	761	136	16	**23,239**
Pensioner	20,765	965	90	28	**21,848**
Widow/Dep	3,131	15	1	0	**3,147**
Total	**66,422**	**4,230**	**595**	**78**	**71,325**

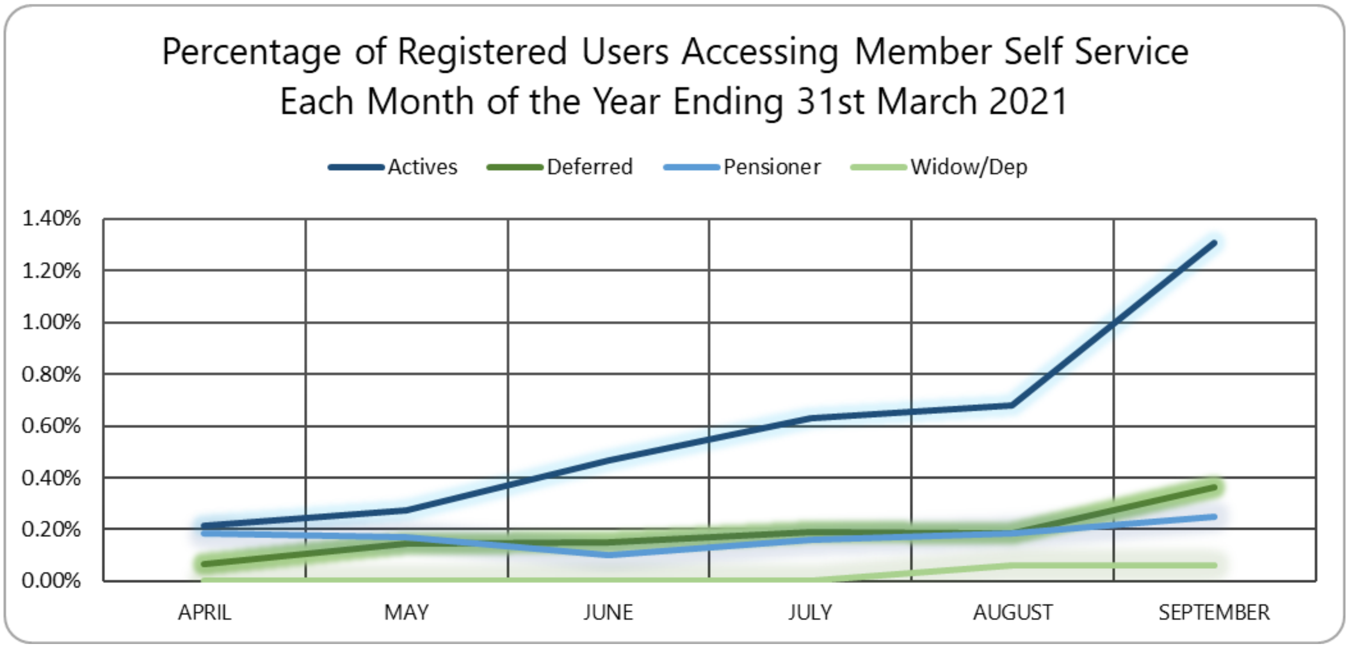




		APRIL		MAY		JUNE	
QUARTER 1	Actives	49	0.21%	63	0.27%	108	0.47%
	Deferred	15	0.06%	34	0.15%	35	0.15%
	Pensioner	40	0.18%	37	0.17%	22	0.10%
	Widow/Dep	-	-	-	-	-	-
	Total	**104**		**134**		**165**	

		JULY		AUGUST		SEPTEMBER	
QUARTER 2	Actives	145	0.63%	157	0.68%	302	1.31%
	Deferred	44	0.19%	43	0.19%	84	0.36%
	Pensioner	35	0.16%	40	0.18%	54	0.25%
	Widow/Dep	-	-	2	0.06%	2	0.06%
	Total	**224**		**242**		**442**	

		OCTOBER		NOVEMBER		DECEMBER	
QUARTER 3	Actives	196	0.85%	-	-	-	-
	Deferred	49	0.21%	-	-	-	-
	Pensioner	44	0.20%	-	-	-	-
	Widow/Dep	-	-	-	-	-	-
	Total	**289**		**-**		**-**	



Additional Work

Guaranteed Minimum Pension reconciliation exercise

Work continues on this project, with the closure scan now expected during 2020.

Complaints

Type of complaint	Date received	Date responded
Delay in responding to member – query raised on previous correspondence (relating to combining benefits), and a response was provided. The member claimed the response was overly complex, and we said we would try to simplify this for her and unfortunately this did not happen.	18/11/2019	28/11/2019

Internal Dispute Resolution Process

For the 3 months to 30th September 2020 there are two known IDRP cases:

- 1 related to November complaint regarding non-receipt of an Expression of Wish form
- 1 related to escalation to Stage 2 of a previous IDRP case relating to ill health retirement. Papers have been issued to the Stage 2 nominated person and we are awaiting a response.

Pensions Ombudsman

For the 3 months to 30th September 2020 there are no known cases passed for consideration to, nor a ruling by, the Pensions Ombudsman.

High Court Ruling

For the 3 months to 30th September 2020 there are no known cases.

Annual Benefit Statements

The statistics for the Annual Benefit Statements issued for 2019/20 are shown below:

	Number	%
Active member employments at year end	23,423	
Not due ABS (status change pre ABS run)	442	1.89%
Due ABS	22,981	98.11%
Due – produced	21,854	95.10%
Due – not produced	1,127	4.90%
Not Produced – Detail	Number	% of Not Produced
Missing CARE pay	898	79.68%
Status change post ABS Run	81	7.19%
Exclude benefit calculation indicator set	2	0.18%
Other	146	12.95%

	Number	%
Deferred members Due and ABS	23,378	
Due – produced	20,269	86.70
Due – not produced	3,109	13.30%
Not Produced – Detail	Number	% of Not Produced
PI Not relevant	130	0.56%
Gone away/Lost Contact	2,968	12.70%
Widows pension missing	10	0.04%

Common Data

Data Item	Teesside Pension Fund Max Population	Total Fails	% OK	Prev %	
NINo	74,742	140	99.81%	99.80%	107 dependents
Surname	74,742	0	100.00%	100.00%	
Forename / Inits	74,742	0	100.00%	100.00%	
Sex	74,742	0	100.00%	100.00%	
Title	74,742	52	99.93%	99.96%	
DoB Present	74,742	0	100.00%	100.00%	
Dob Consistent	74,742	0	100.00%	100.00%	
DJS	74,742	0	100.00%	100.00%	
Status	74,742	0	100.00%	100.00%	
Last Status Event	74,742	652	99.13%	99.27%	
Status Date	74,742	1,349	98.20%	98.62%	
No Address	74,742	349	99.53%	99.53%	
No Postcode	74,742	467	99.38%	99.37%	
Address (All)	74,742	4,104	94.51%	94.61%	
Postcode (All)	74,742	4,115	94.49%	94.61%	
Common Data Score	**74,742**	**2,597**	**96.53%**	**97.07%**	
Members with Multiple Fails	**74,742**	**396**	**99.47%**	**99.50%**	

Conditional Data

XPS Administration, Middlesbrough are working on a method to report Conditional Data. Discussions are ongoing with Aquila Heywood on a cost for this reporting function along with investigation on whether this can be achieved internally. This follows the issuance by SAB of 22 data fields that should be reported on.

Customer Service

Since December 2016, XPS Administration, Middlesbrough have included a customer satisfaction survey with the retirement options documentation.

A summary of the main points are as follows:

Issued	Returned	%
15,867	3,055	19.25

Question	Previous Response*	Current Response*
1. It was easy to see what benefits were available to me	4.26	4.27
2. The information provided was clear and easy to understand	4.19	4.19
3. Overall, the Pensions Unit provides a good service	4.29	4.29
4. The retirement process is straight forward	4.03	4.03
5. My query was answered promptly	4.45	4.45
6. The response I received was easy to understand	4.43	4.44
7. Do you feel you know enough about your employers retirement process	76.46%	76.51%
8. Please provide any reasons for your scores (from 18/05/17)		
9. What one thing could improve our service		
10. Did you know about the www.teespen.org.uk website? (from 18/05/17)	47.27%	47.53%
11. Did you use the website to research the retirement process? (from 18/05/17)	27.24%	27.40%
12. Have you heard of Member Self Service (MSS)? (from 18/05/17)	23.75%	23.80%

*scoring is out 5, with 5 being strongly agree and 1 being strongly disagree

Recruitment

Following the agreement of the Pensions Committee to fund enhancements to the Pensions Administration Services at their meeting of 7th March 2018, XPS Administration, Middlesbrough has looked to recruit into the roles required to provide this enhanced service.

XPS are currently reviewing processes to enable a move to monthly contribution postings which should lead to greater efficiencies, and more up to date information on member records.

Performance

Following discussions with both the Pension Board and Committee, XPS Administration are investigating a way to report the time between a member being entitled to a benefit and it being finalized (e.g. time between date of leaving and deferred benefit statement being issued or pension being brought into payment).

XPS Administration are therefore investigating whether sufficient reporting tools already exist within the pension administration system or whether bespoke reports are required to be developed (either internally or via the administration software providers).

The Pension Committee will be kept updated on the progress to provide this information.

Employer Liaison

Employers & Members

Employers seem to now be working extremely well adapting to the "new normal" and year end has been a very successful exercise in terms of engagement despite the constraints placed on us all suddenly back in March.

Annual benefit statements were issued to members at the end of August and we will be looking for feedback from members and employers on the paper format and also discuss the online version available.

This month we have started our Employer Health Check communication where we are virtually going to meet each employer to find out what they need from us in regards to training, and what we expect from them. These meetings will also involve general discussions on how employers are finding matters in the current situation. We are hoping to have the first tranche complete by Christmas.

Late Payments

Below shows the percentage of late payments each month in relation to the contributions received to the Teesside Pension Fund:

9 Employers

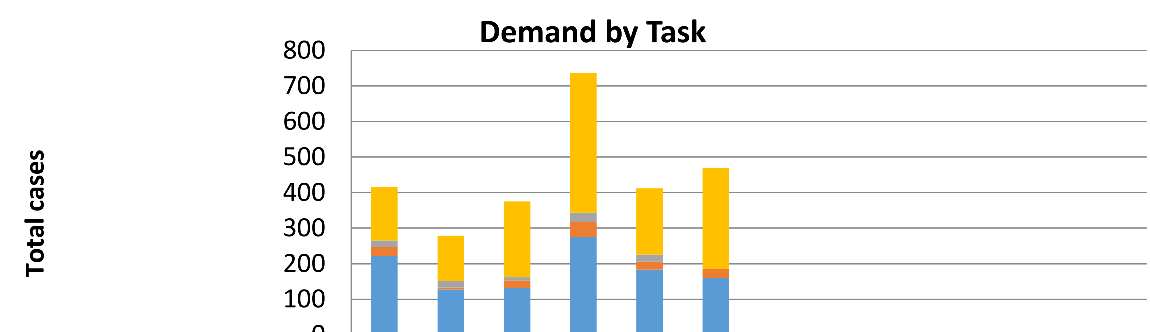
- Tees Valley community Asset Preservation Trust
- Northern Lights Learning Trust
- Lockwood Parish
- KGB
- Hartlepool Sixth Form
- FROG
- Thirteen
- Ecocleen
- Creative

Some of these employers are regular offenders and we are in regular contact with them. We are finding that employers are having difficulties under the current working restraints and are never late sending sheets. We are now liaising with accounts and the employers after the number of late payments increased in August.

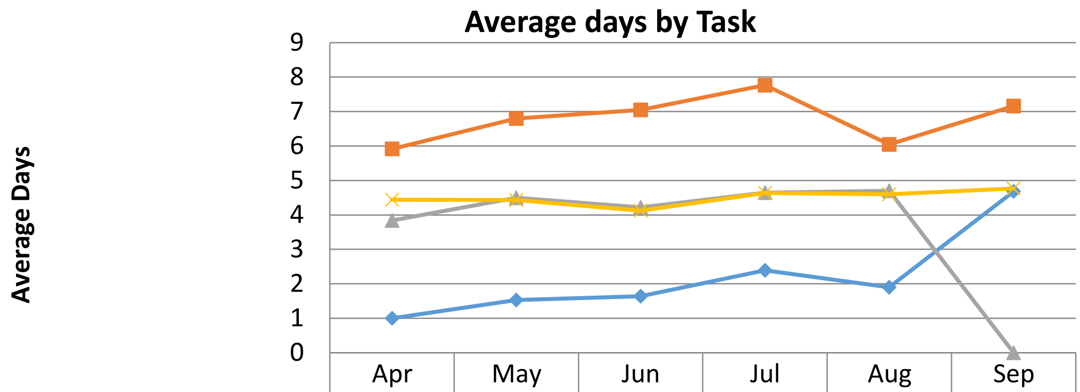
Date	Expected Payments	Late Payments	% Late	<10 Days Late	>10 Days Late
Aug-19	148	3	4.00%	2	1
Sep-19	148	4	4.00%	3	1
Oct-19	148	1	4.00%	0	1
Nov-19	156	6	2.00%	2	4
Dec-19	156	4	3.00%	4	0
Jan-20	158	4	3.00%	4	0
Feb-20	158	4	3.00%	4	0
Mar-20	158	2	1.00%	2	0
Apr-20	138*	4	3.00%	-	-
May-20	151	3	2.00%	0	3
Jun-20	151	2	1.00%	1	1
Jul-20	150	6	4.00%	6	0
Aug-20	150	9	6.00%	0	9

Performance Charts

Overall Demand



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Estimates & Deferreds	151	128	213	392	186	285						
Refunds	19	18	9	26	20							
Transfer Values	24	5	21	43	23	26						
Processing new entrants	222	128	132	275	183	159						



	Apr	May	Jun	Jul	Aug	Sep
Processing new entrants	1	2	2	2	2	5
Transfer Values	6	7	7	8	6	7
Refunds	4	5	4	5	5	0
Estimates	4	4	4	5	5	5

The following charts show performance against individual service level requirements.

April 2020

Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	99.55%	1.00	222	1	222	221
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	6	24	0	24	24
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	4	19	0	19	19
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	4	151	0	151	151
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

May 2020

Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	1.53	128	0	128	128
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	5	0	5	5
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	18	0	18	18
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	4	128	0	128	128
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

June 2020

Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	1.64	132	0	132	132
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	21	0	21	21
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	4	9	0	9	9
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	4	213	0	213	213
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

July 2020

Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	2.39	275	0	275	275
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	8	43	0	43	43
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	26	0	26	26
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	392	0	392	392
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

August 2020

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	1.90	183	0	183	183
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	6	23	0	23	23
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	20	0	20	20
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	186	0	186	186
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

September 2020

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	4.68	159	5	159	159
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	26	0	26	26
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	0%	#DIV/0!	0	0	0	0
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	0.0%	5	285	0	285	285
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

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