Legal and Governance

TEESSIDE PENSION FUND COMMITTEE

Date:	**Wednesday 13th December, 2023**
Time:	**11.00 am**
Venue:	**Mandela Room**

AGENDA

1. Welcome and Evacuation Procedure

2. Apologies for Absence

3. Declarations of Interest

   To receive any declarations of interest.

4. Minutes - Teesside Pension Fund Committee - 27 September 2023 — 3 - 14

5. Investment Activity Report — 15 - 42

6. External Managers' Reports — 43 - 124

7. Border to Coast Presentations - Investments Summary and Alternatives Update — 125 - 160

8. Investment Advisors' Reports — 161 - 168

9. CBRE Property Report — 169 - 176

10. LGPS 'Next Steps on Investment' Consultation Outcome — 177 - 214

11. XPS Pensions Administration Report — 215 - 232

12. Border to Coast Responsible Investment Policy, Corporate Governance & Voting Guidelines and Climate Change Policy 233 - 268

13. Any other urgent items which in the opinion of the Chair, can be considered

14. Exclusion of Press and Public

To consider passing a Resolution Pursuant to Section 100A (4) Part 1 of the Local Government Act 1972 excluding the press and public from the meeting during consideration of the following items on the grounds that if present there would be disclosure to them of exempt information falling within paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

15. Property Management 269 - 282

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Tuesday 5 December 2023

MEMBERSHIP

Councillors J Rostron (Chair), J Ewan (Vice-Chair), D Branson, D Coupe, T Furness, S Hill, J Kabuye, T Livingstone, D McCabe, J Beall, R Creevy, M Fairley, Ms J Flaws, Mr B Foulger and Mr T Watson

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 Wednesday 27 September 2023.

PRESENT: Councillors J Rostron (Chair), J Ewan (Vice-Chair), D Branson, D Coupe, J Kabuye, D McCabe, J Beall, (Stockton Council), M Fairley (Redcar and Cleveland Council)
Ms J Flaws and Mr T Watson

ALSO IN ATTENDANCE: P Mudd (XPS Administration), W Bourne (Independent Adviser), S Law (Hymans Robertson), J Baillie (Hymans Robertson), W Baxter (CBRE), A Owen (CBRE), A Peacock (CBRE), D Knight (Border to Coast), M Kerr (Border to Coast), J Whitfield (FW Capital)

M Mason (EY) joined the meeting virtually

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors T Furness, S Hill and R Creevy, (Hartlepool Council)
P Moon

22/14 WELCOME, INTRODUCTIONS AND EVACUATION PROCEDURE

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

22/15 DECLARATIONS OF INTEREST

Name of Member	Type of Interest	Item/Nature of Interest
Councillor J Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor D Coupe	Non pecuniary	Member of Teesside Pension Fund
Councillor J Ewan	Non pecuniary	Member of Teesside Pension Fund
Councillor J Rostron	Non pecuniary	Member of Teesside Pension Fund

22/16 SUSPENSION OF COUNCIL PROCEDURE RULE 4.13.2 - ORDER OF BUSINESS

In accordance with Council Procedure Rule No. 4.57, the Committee agreed to vary the order of business to deal with the agenda items in the following order: Agenda Item 16, Agenda Items 4 -15, Agenda Items 17 and 18.

22/17 EXCLUSION OF PRESS AND PUBLIC

ORDERED that the press and public be excluded from the meeting for the following item 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.

22/18 LOCAL INVESTMENT PROPOSAL UPDATE

A report of the Interim Director of Finance was presented to provide an update on a Local Investment Proposal.

ORDERED as follows that the:
1. information provided was received and noted.
2. recommendation as set out at paragraph 2.1 of the submitted report was approved.

22/19 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the resolution to Exclude Press and Public was lifted and the meeting continued in public session.

22/20 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 28 JUNE 2023**

The minutes of the meeting of the Teesside Pension Fund Committee held on 28 June 2023 were taken as read and approved as a correct record.

22/21 **INVESTMENT ACTIVITY REPORT**

A report of the Interim Director of Finance was presented to inform Members of the 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. For the period under discussion, bonds were still not considered value for the Fund and the Fund had no investments in Bonds at this time.

The cash level at the end of June 2023 was 4.34%.

Investment in direct property where the property had a good covenant, yield and lease terms would continue. The Fund had purchased one property in the quarter for £30.5m – St Albans Retail Park.

Investment in Alternatives, such as infrastructure and private equity, offered the Fund diversification from equities and bonds. They came with additional risks of being illiquid, traditionally had costly management fees and investing capital could be a slow process. An amount of £66m was invested in the quarter.

It was a requirement that all transactions undertaken were reported to the Committee. Appendix A to the submitted report detailed transactions for the period 1 April 2023–30 June 2023.

There were net purchases of £174m in the period, compared to net purchases of £84m in the previous reporting period.

As at 30 June 2023, the Fund had £218 million invested with approved counterparties. This was a decrease of £117 million over the last quarter. The graph at Appendix B to the submitted report showed the maturity profile of cash invested. It also showed the average rate of interest obtained on the investments for each time period.

The Fund Valuation detailed all the investments of the Fund as at 30 June 2023, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,051 million. A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 June 2023 compared with the Fund's customised benchmark. The detailed valuation was attached at Appendix C to the submitted report and was also available on the Fund's website www.teespen.org.uk. This compared with the last reported valuation, as at 31 March 2023 of £5,060 million.

As at the 30 June 2023 the Fund's equity weighting was 62.27% compared to 61.23% at the end of March 2023. As cash levels reduced the team were looking at cashflow projections to determine if and when equity redemptions might be required. A summary of equity returns for the quarter 1 April 2023-30 June 2023 were shown at paragraph 8.4 of the submitted report.

With regard to the Fund's Local Investments, a further payment of £13.5m was made in August to GB Bank as the Bank received regulatory approval to exit mobilisation.

As at 31 August 2023 total commitments to private equity, infrastructure, other alternatives and other debt were £1,927m and details were provided at paragraph 8.8 of the submitted report.

ORDERED that the information provided was received and noted.

22/22 **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). The report also provided Members with details of proposed changes to:

- The method Border to Coast used to apportion its costs between its investors (the Partner Funds).
- The benchmarks State Street used for their passive equity funds.

As at 30 June 2023 the Fund had investments in the Border to Coast UK Listed Equity, Overseas Developed Markets and Emerging Markets Equity Funds. For all three sub funds the return target was expected to be delivered over rolling 3 year periods, before calculation of the management fee. The Fund also had investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. To date, total commitments of £900 million had been made to these sub-funds (£500m to infrastructure and £400m to private equity) with around 33% of this commitment invested so far. In addition, a commitment to invest £80 million over a three year period to the Border to Coast Climate Opportunities Fund had been made.

The Border to Coast report showed the market value of the portfolio at 30 June 2023 and the investment performance over the preceding quarter, year, and since the Fund’s investments began. Border to Coast had 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 were also included. Border to Coast’s UK Listed Equity Fund had achieved returns of 0.80% above benchmark over the last year, just under its 1% overachievement target, whereas the Overseas Developed Markets Equity Fund had achieved returns of 2.35% above benchmark over the last year, comfortably above its 1% overachievement target. Since inception, the UK fund had delivered performance of 0.93% a year above benchmark, slightly below its long-term target, and the overseas fund has delivered performance of 1.49% above benchmark, above its long-term target. The performance of the Emerging Markets Equity Fund had been below benchmark throughout much of the period of the Fund’s investment – although performance over the quarter and year to 30 June 2023 was above benchmark, albeit still below the 1.5% over benchmark target.

State Street had a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report, attached at Appendix B to the submitted report, showed the market value of the State Street passive equity portfolio and the proportions invested in each region at 30 June 2023. Performance figures were 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.

State Street continued to include additional information with their report this quarter, giving details of how the portfolio compared to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues. As the State Street investments were passive and closely tracked the appropriate regional equity indices, the portfolio’s rating in these terms closely matched the benchmark indices ratings.

The latest report showed performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufactured controversial weapons. As expected for a passive fund, performance closely matched the performance of the respective indices.

State Street had recently advised that it would be making further changes to its passive equity indices and would be excluding additional sectors. The Fund had been notified that from 18th December 2023 the benchmarks of the State Street Sub-Funds the Fund invested in would apply screens to exclude certain securities related to Tobacco and Thermal Coal. Excluded companies would be any involved in production of tobacco or tobacco products and companies that extract thermal coal or have thermal coal power generation and this activity represented 10% or more of revenues. This was in addition to the current screening for UN Global Compact Violations and Controversial Weapons which came into effect on 18th November 2020. Initial indications were that across the four State Street Sub-Funds these changes would cover around 0.36% of the current assets (tobacco) and 0.88% of the current assets (thermal coal) that the Fund invested via State Street.

A Member asked whether, by excluding companies, the Pension Fund could potentially be in breach of new legislation in the Boycotts, Divestment and Sanctions Bill. The Head of Pensions Governance and Investments commented that it would probably not have a significant impact on how the Fund chose to operate or invest, although he had not seen any detailed guidance. Teesside Pension Fund did not normally exclude companies but preferred to work with them.

It was highlighted that the Fund used State Street as its equity manager as it enabled the Fund to have the right regional allocation. If the Fund felt that the advantages were outweighed by the changes to the index, it would need to take a view on that.

Another Member was pleased to note State Street's decision to divest from tobacco and it was calculated that the amount currently invested was approximately £18 million.

Appendix C to the submitted report contained the latest available ESG and carbon exposure in relation to the three Border to Coast listed equity sub-funds the Fund invests in: UK Listed Equity, Overseas Developed Markets Equity and Emerging Markets Equity. Amongst other information, the reports included information on the highest and lowest ESG-rated companies within those Border to Coast sub-funds, together with an analysis of the carbon exposure of the sub-funds on a number of metrics. The sub-funds' ESG position and carbon exposure was also compared to benchmarks representing the 'average' rating across the investment universe of that particular benchmark.

When Border to Coast was established over 5 years ago its Partner Funds set out an approach to apportion the costs of setting up and running the different investment propositions (sub-funds) Border to Coast provided. To ensure adequate funding for each of the new propositions, the initial cost-sharing approach included apportioning some ongoing management charges based on the assets Partner Funds had identified as likely to transfer into the pool. Whilst it was acknowledged that over time charging most costs on an 'assets under management' basis would be fairest, at the outset this would cause anomalies and might in some circumstances make it more expensive for those Partner Funds that were committing a greater proportion of their assets to pooling.

Now that Border to Coast had reached a stage where the majority of the sub-funds originally envisaged had been created, it was an appropriate time to revisit the way costs were apportioned. Over the next few months Partner Funds (or their administering authorities) would be asked to agree to make some changes to the agreements that set up Border to Coast to allow cost apportionment from the coming year to be based primarily on an 'assets under management' basis. This would not change the costs that Border to Coast charges, it would just apportion them differently – in a way that more fairly represented how Partner Funds were invested. More information on the proposed change was shown in the briefing note recently shared with the Border to Coast Officer Operations Group (OOG), a copy of which was attached at Appendix D to the submitted report.

ORDERED that the information provided was received and noted.

22/23 **BORDER TO COAST PRESENTATION - INVESTMENTS SUMMARY AND UPDATE**

The Head of Client Relationship Management gave a presentation to provide the Committee with a summary and update of the Fund's investments with Border to Coast.

The presentation included information on the following:

- The Fund's Investments with Border to Coast:
- Listed Investments as at 30 June 2023.

- Commitment to Border to Coast's Private Market Strategies.
- Market Overview – Q2 2023.
- Listed Investments – Performance to Q2 2023.
- Private Markets Update: Capital Deployment (Fund Level).
- Private Markets: New Commitments for Q2 2023.
- Border to Coast Update.
- Private Equity/Infrastructure – Internal Rate of Return (IRR) and Total Value to Paid-in Capital (TVPI) Definitions.

83% of Partner Fund assets were pooled, £40.3bn of which Border to Coast were directly responsible for. £8.3bn of this was now invested in assets supporting the transition to Net Zero. A new programme of engagement on Just Transition, which enabled investors to address systemic threats to long-term stability and support the transition to Net Zero, had just been announced.

A Member commented that whilst inflation was reducing, the price of oil was rising and this could in turn lead to further inflation. The Head of Client Relationship Management commented that there were still a lot of risks around inflation even though it was reducing around the world. Energy prices were a factor of uncertainty going forward. It was difficult to predict the outlook as it depended on local macro-economics and local regulation. However, volatility would begin to affect inflation levels.

The Fund's Advisor stated that interest rates and volumes had gone up and given that the Fund could get 5% on cash asked whether returns were rising.

The Head of Client Relationship Manager confirmed that return objectives had been increasing reflecting the fact that base rates were higher. When the design of private market solutions had been considered in the past BCP had discussed whether the potential was there to generate higher returns or whether it was preferable to keep a stable return target and achieve that with lower risk. Past preference had been to maintain a regular return but this was still to be discussed for next year.

The Fund's Advisor also noted that the valuations of long-term assets had been affected by the rise in bond yields and asked whether BCP was confident in the valuations it was being given.

The Head of Client Relationship Manager confirmed that all assets in the private market fund were valued quarterly and there had been a draw down in values this year. As part of due diligence, BCP would dive into their valuation processes look at their previous launches and how accurate investment managers had been on their valuations. BCP also had regular calls with investment managers to test and understand their valuations.

ORDERED that the information provided was received and noted.

22/24 **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.

William Bourne provided further commentary at the meeting and highlighted that inflation was falling and interest rates were peaking. Central banks had raised interest rates to keep inflation down but also been generous in terms of using their balance sheets – quantitative easing. This had hidden some of the stresses in the market. A further stress was about much higher bond yields and the effect on valuations. It was likely they would rise higher as governments would need to issue a lot of debt. UK debt was 99% of GPD. Whilst this was not unprecedented it was usually around 40%. There was also a lack of growth globally and the likelihood of US and UK elections in the next few months.

William advised that at some point in the future the Committee should consider investing more into gilt linked bonds and government debt as these provided the best protection against inflation.

ORDERED that the information provided was received and noted.

22/25 **CBRE PROPERTY REPORT**

A report was submitted that provided an overview of the current property market and informed Members of the individual property transactions relating to the Fund.

Q2 and Q3 had been relatively quiet with low volumes of trading in the property market. There had been uncertainty as to when prices would peak and interest rates had an impact on pricing. The situation was becoming more stable as it appeared that interest rates had peaked and there was beginning to be more activity on the market.

There was still a healthy demand for industrial and logistics, although not as much development as previously. Potentially this offered an opportunity to buy in that market at good value. Good quality offices were required for the continued return to office based working following the pandemic. In the retail sector there was still uncertainty about how much space was required. CBRE continued to look for the best quality and locations.

There would be opportunities as the market re-priced and the Fund would be able to invest at the right prices. Once there was more certainty, there would be more competition for property.

Regarding any difference in growth between retail property in town centres and sub regional shopping centres it was a difficult market to assess. It was down to the individual asset as to whether it was good or not. Values for retail were often not a large enough investment for the Teesside Fund..

In relation to the Portfolio, the current void rate was less than 1%.

The Fund had purchased a retail park in St Alban's for £30.5 m which was currently let to B & Q, Aldi and Costa. The purchase of a 346,465 sq ft industrial unit in Washington had also now completed and would be let to BAE.

In relation to asset management it was highlighted that a lease renewal had been completed with Costa in Ipswich and further discussions were taking place with B&M, Congleton to agree a lease renewal.

The total Collectable Arrears on the entire portfolio was £229,492 as at 8 September 2023.

All existing loans were performing in line with their loan agreements. All were covenant compliant and all interest and amortisation payments had been made on time.

In respect of Responsible Investments it was confirmed that Teesside Pension Fund's property Portfolio currently complied with MEES regulation. The Fund had undertaken a strategic review of the Portfolio to ensure continued compliance with incoming regulation in 2025.

ORDERED that the information provided was received and noted.

22/26 **LGPS 'NEXT STEPS ON INVESTMENT' CONSULTATION**

A report of the Interim Director of Finance was submitted, the purpose of which was to:

- Advise the Members of the Pension Fund Committee (the Committee) of an ongoing government consultation: "Local Government Pension Scheme (England and Wales): Next steps on investments" which set out a proposed direction of travel in relation to investment pooling on the Local Government Pension Scheme (LGPS).

- Explain the process being followed in relation to the Pension Fund and Border to Coast Pensions Partnership ('Border to Coast') responding to the consultation.

- Ask the Committee to agree and provide any comments on a draft response to the consultation on behalf of the Fund.

The Teesside Pension Fund was one of twelve (now eleven following a fund merger) founder members of the Border to Coast Pensions Partnership ('Border to Coast'). Border to Coast was acknowledged as one of the most successful of the eight pools, both in terms of the amount of assets that have been pooled and the strong positive relationships that existed between the pool members and with the pool company. Border to Coast and its Partner Funds had also largely delivered the original pooling objectives the government set out in 2015.

The government had issued a consultation on next steps for LGPS investments in England and Wales which looked to build and accelerate progress towards greater LGPS pooling. The stated objective was to achieve pools in the £50-75 billion and possible £100 billion range and to do this by initially encouraging/requiring all LGPS funds to complete the pooling process with their current pool and then reducing the number of pools from eight to an unspecified lower number. The full text of the consultation document was attached at Appendix A to the submitted report.

Other aspects, as well as accelerating the pace and scale of pooling were also covered in the consultation which addressed the following five areas:

- "First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why. While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

- Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.

- Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.

- Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.

- Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations."

Border to Coast, together with its Partner Funds, had been working to develop a joint response to the consultation. The response was due to be approved by Border to Coast's Joint Committee on 28th September 2023. Alongside this joint response, which all Partner Funds would be signing up to, each Partner Fund would also be submitting a response to government. These individual responses may emphasise particular aspects or cover areas of special concern to each Fund but were not expected to contradict the general collective approach being developed by all the pool participants. A draft response from the Teesside Fund was attached at Appendix B to the submitted report for the Committee's comments and approval. A table at paragraph 5.3 of the submitted report set out the questions from the consultation together with some summary comments on the collective response that would be given from Border to Coast and its Partner Funds, also consistent with the draft response from the Teesside Pension Fund.

Much of what the Government was proposing was in line with the approach to pooling that had already been adopted by Border to Coast and its Partner Funds. For example, on the requirement to pool all listed assets by 31 March 2025, the Fund had to a large degree already achieved this – all the Fund's actively managed equities were invested by Border to Coast (over £2.5 billion as at 30 June 2023) with only the Fund's passive equities managed elsewhere (by State Street Global Advisors – around £0.6 billion as at 30 June 2023).

The areas the Fund emphasised in its response to the consultation included the following:

- Re-iterating resistance to the Government's continuing attempts to direct Funds as to how to allocate their assets. The 2015 consultation started with a drive to use LGPS Funds to pay for UK infrastructure projects, the latest iteration looks to leverage LGPS assets to help pay for the Government's 'levelling-up' agenda.

- Caution around the drive to invest in private assets – although private market performance has been very good over recent years, past performance is no guarantee of future outcomes, and with an era of 'cheap money' seemingly coming to an end there is a risk Funds could be directed inappropriately into illiquid investments that may not deliver expected outcomes.

- The consultation blithely suggests the 'deadline' for the transfer of non-listed assets into Funds could easily be 31 March 2025 as well. In fact, there are significant barriers associated with transferring these assets. One in particular the Government could alleviate would be to allow the transfer of property assets from a Fund to a Pool without incurring stamp duty.

The consultation period would close on 2 October 2023. The Fund's response would finalised following this meeting and submitted by the deadline. The expectation was that the Government may either announce the outcome of the consultation or give a strong steer as to its likely announcement in the Autumn Statement (expected to be in November). The Committee would be kept up to date with future developments on the guidance and/or regulations relating to LGPS investment pooling.

ORDERED as follows that the:
1. the information provided was received and noted.
2. Fund's response to the consultation was approved.

22/27 **FUNDING LEVEL UPDATE**

The Head of Pensions Governance and Investments provided an update on the funding level. The Fund's funding objectives were to keep employer contributions as low and stable as possible, for as long as possible with a comfortable level of prudence. To achieve these objectives, the Fund took a long-term view (20 years) when setting contribution rates for tax-payer backed employers but required at least a 75% likelihood they would be at least fully funded at the end of this period. It was noted that the Fund invested in assets that could change in value considerably day-to-day. As a result, the funding level and any surplus or deficit could change significantly from one day to the next. Taking a long-term view on risk was core to fulfilling the Fund's objective of keeping rates as stable as possible.

Over the period from 2016 to 2022, the observed improvements in funding levels had been driven by higher than anticipated investment returns. Over this period, the Fund's investments returned nearly 80%, however, this was damped by low interest rates which depressed market expectations for future returns. Since the 2022 valuation, returns on the Fund's investments had been slightly less than anticipated. In essence, the Fund was holding approximately the same amount of assets today as it did on 31 March 2022 for every £ of pension it expected to pay out. However, increasing interest rates had increased market expectations for long term future returns which had reduced the estimated value placed on the benefits (liabilities). Therefore, a shift had occurred where increases in funding level were previously being driven by actual returns, whereas recent increases were being driven by the promise of greater future returns.

As at the end of July 2023, the Funding Level had risen to 154%. The main risks to the Funding Level were inflation and regulatory changes.

Members asked whether there were any implications in terms of contributions to the scheme from employers, especially given the current economic climate. It was clarified that the figures presented were a snapshot part way through the valuation cycle and the next contribution rate review was not due to take place with Employers until April 2026.

ORDERED that the information provided was received and noted.

22/28 **PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS**

A report of the Interim Director of Finance was presented to provide Members with the 2022/23 draft Annual Report and Accounts for the Teesside Pension Fund.

The terms of reference for the Teesside Pension Fund Committee required the Annual Report and Accounts to be considered by Members. A copy of the draft unaudited Report and Accounts for the year ended 31 March 2023 was attached to the submitted report.

The overall financial performance of the Fund for the year to 31 March 2023 was broadly neutral. The Fund's value rose slightly to £5.064 billion, an increase over the year of approximately £27 million. Performance was muted but positive overall across equities, but property assets were negative, showing a -9% return over the year, largely because of revaluations following challenging economic conditions in some sectors.

The membership of the Fund continued to increase, with total membership at the year-end now standing at 80,338 an increase of 2,443 over last year. The number of active members had increased by 764 or 3.0% over the year and increased by 15.3% over the past four years. The number of pensioners increased by 703 or 2.7% over the year and increased by 12.2% over the past four years. The number of deferred members had increased by 976 or 3.7% over the year and increased by 16.5% over the past four years.

The actuary carried out the Fund's latest triennial valuation, which looked at the Fund's assets and liabilities as at 31 March 2022, during the year and the final report was published at the end of March 2023. Headlines from the valuation were an increase of around £1 billion in assets from around £4 billion at the 31 March 2019 valuation to around £5 billion. However, this was accompanied by an increase in the value of the Fund's liabilities – primarily because the actuary increased their long-term inflation assumption and also became more pessimistic about the outlook for future investment returns. Overall, the Fund's funding level increased slightly from 115% to 116% but the estimated cost of providing future benefits increased as well, leading to contribution rate increases for some employers taking effect during the three year period starting 1 April 2023.

The Annual Report and Accounts presented were in draft form and, whilst the main numbers and outcomes were not expected to change in any significant way, changes might be needed as further review takes place. Some highlighted text from the previous year existed in the draft where further input was required. In addition, the audit process for the Council's accounts (which included the Pension Fund accounts) was not yet complete, and further changes might be required as a consequence.

Once finalised the Annual Report and Accounts would be published on the Pension Fund's website.

Responding to a query regarding an exit payment to an Employer, the Head of the Pensions Governance and Investment explained that the Employer had exited the scheme as it no longer had any active members. The Employer had been in the scheme for many years and had a surplus and that was the reason for the expenditure.

Members' attention was drawn to the shortfall between the net spending of £68 million and the investment income of £58 million. This shortfall was currently being met from the cash deposits held by the Fund. The fund also sold equities to top up the cash balance. The Fund Advisor confirmed that since the Fund was overweighted in equities it was acceptable to sell equities in order to get back to the weighting.

ORDERED that the information provided was received and noted.

22/29 **XPS PENSIONS ADMINISTRATION REPORT**

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

The report provided information on the following:

- Overview
- Member Movement
- Member Self Service
- Pension Regulator Data Scores
- Customer Service
- Completed Cases Overview
- Completed Cases by Month
- Complaints

The following issues were highlighted:

XPS was currently putting together a proposal to complete the necessary additional work arising from the McCloud judgement.

In relation to the Pensions Dashboards a revised staging timetable would be set out in guidance and all schemes in scope would now need to connect by 31 October 2026.

XPS was promoting a digital first approach in respect of Member Self Service. The Middlesbrough based Contact Centre had been live for twelve months and as part of any contact with Members they would be taken through the process of joining the online portal.

Pensions regulator scores showed that 95.91% of all the data around the common items were validated as present and correct. Scheme specific data review had been temporarily paused because of work required for McCloud. XPS would work with the actuaries using a data valuation tool to check for any gaps in data and thus enable more accurate calculations.

The next newsletter would be issued in October month and there would be a new system for people to provide feedback at any time rather than when they retired.

"Opting out" was currently the top search term on the website and this was potentially due to the cost of living crises and members seeking to make their money go further. This was of concern as members could opt out at any time. XPS was not able to provide financial advice but tried to tailor communications to advise against opting out.

Employer liaison work was ongoing and unfortunately XPS had not been informed about a significant number of leavers from the Fund. Each Employer would be contacted and information requested to ensure the database was correct and up to date. This lack of information had impacted the issue of Annual Benefit Statements which were due by 31 August 2023 and equated to around 2657 members. Pension statements would be sent out next week.

ORDERED that the information provided was received and noted.

22/30 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

22/31 **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.

22/32 **LOCAL INVESTMENT UPDATE**

A report of the Interim Director of Finance was presented to request further investment in a local scheme.

ORDERED as follows that the:

1. information provided was received and noted.
2. recommendation as set out in the report at paragraph 2.1 of the submitted report was

approved.

22/33 **SELECTION CRITERIA**

Representatives from Border to Coast and CBRE left the meeting at this point.

At this point in the meeting Councillor Coupe declared a disclosable personal interest as a Non-Executive Director of Border to Coast Pensions Partnership Limited.

A report on Selection Criteria was presented for the Committee's information.

ORDERED that the information provided was received and noted.

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 5

PENSION FUND COMMITTEE REPORT

13 DECEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

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 2023**

4.1 The Fund continues to favour growth assets over protection assets. For the period under discussion here, bonds were still not considered value for the Fund.

<u>The Fund has no investments in Bonds at this time.</u>

4.2 At the June 2018 Committee it was agreed that, a maximum level of 20% of the Fund would be held in cash.

<u>Cash level at the end of September 2023 was 3.74%</u>

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

The Fund purchased one property in the quarter for £50.25m – an industrial unit let to BAE Systems Ltd, Washington, Tyne & Wear additional details are included in the CBRE Report.

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.

An amount of £53m was invested in the quarter.

5. TRANSACTION REPORT

5.1 It is a requirement that all transactions undertaken are reported to the Committee. Appendix A details transactions for the period 1 July 2023 – 30 September 2023.

5.2 There were net purchases of £15m in the period, this compares to net purchases of £174m 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 Director of Finance.

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 2023, the Fund had £189 million invested with approved counterparties. This is a decrease of £29 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 Director of Finance 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 2023, and is prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, is **£5,100 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 2023 of **£5,051 million**.

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 2023 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 At the March 2021 Pension Fund Committee a revised Strategic Asset Allocation was agreed:

Asset Class	Long Term Target SAA	Current 30/09/23	Minimum	Maximum
GROWTH ASSETS	75%	83.83%	55%	95%
UK Equities	10%	11.83%	40%	80%
+Overseas Equities	45%	48.12%		
Property	10%	10.80%	5%	15%
Private Equity	5%	9.73%	0%	10%
Other Alternatives	5%	3.35%	0%	10%
PROTECTION ASSETS	25%	15.14%	5%	45%
Bonds / Other debt / Cash	15%	6.03%	5%	45%
Infrastructure	10%	9.11%		

(Local Investments account for the missing 1% in the "current" totals - there is no allocation within the SAA for these assets)

8.3 It has been agreed by the Pension Fund Advisers and Fund Officers that there will be no changes to the Strategic Asset Allocation shown above following the Actuarial Valuation. However it was acknowledged that work would continue to ensure the Fund's assets were more closely aligned to the strategic asset allocation. It was also acknowledged that there may be times in the short to medium term where the strategic allocation to a particular asset class is above the long term target – in any such case it should remain within the maximum level set out in the table at paragraph 8.2.

8.4 **EQUITIES**

As at the 30 September 2023 the Fund's equity weighting was 59.95% compared to 62.27% at the end of June 2023.

Redemptions of £100m in total, were made from the Border to Coast UK & Overseas Developed Market Equity Funds.

Summary of equity returns for the quarter 1 July 2023 – 30 September 2023:

Asset	Fund Performance	Benchmark	Excess Return
BCPP UK	1.53%	1.88%	-0.35%
BCPP Overseas	0.10%	-0.21%	0.32%
BCPP Emerging Market	1.90%	2.46%	-0.56%
SSGA Pacific	-1.28%	-1.35%	0.07%
SSGA Japan	3.04%	2.89%	0.15%
SSGA Europe	-1.88%	-1.97%	0.09%
SSGA North America	1.02%	0.90%	0.12%

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

8.5 **BONDS + CASH**

The Fund has no investments in bonds at this time, the level of cash invested is 3.74% Discussions were held within the Committee Meeting re investing in bonds, although there was no directive to invest at this time the Advisers have since indicated the levels at which they feel investment would be appropriate. Officers are monitoring the situation, when the levels come into range we will have a further discussion with the advisers, current thinking is that an investment via the Border to Coast Sterling Index Linked Bond Fund would be the most appropriate vehicle.

8.6 **PROPERTY**

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

8.7 **LOCAL INVESTMENT**

To date the Fund has agreed three Local Investments:

GB Bank – Initial agreement of £20m called in full in September 2020.
An additional £6.5m was paid to the bank in December 2021.
Further payment of £13.5m was made in August as the bank received regulatory approval to exit mobilisation.

Ethical Housing Company - £5m investment of which £765k has been called.

Waste Knot - £10m investment agreed at the June 2021 Committee, payment was made in full in December 2021.

8.8 **ALTERNATIVES**

As at 30 November 2023 total commitments to private equity, infrastructure, other alternatives and other debt were £1,927m, as follows:

	Total committed	Total Invested
Border to Coast Infrastructure	£500m	£176m
Other Infrastructure Managers	£317m	£252m
Border to Coast Private Equity	£400m	£132m
Other Private Equity Managers	£364m	£232m
Other Alternatives	£226m	£168m
Other Debt	£120m	£103m
Totals	**£1,927m**	**£1,063m**

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

TEL NO.: 01642 729040

Bargain Date	Buy/ Sell	Stock Name	Country/Category	Sector/Country	Nominal Amount of Shares	Price (P)	CCY	Purchase Cost / Sale Proceeds (£)	Book Cost of Stock Sold (£)	Profit/ (Loss) on Sale (£)
04/07/2023	P	Ancala Infrastructure Fund II	Infrastructure	Infrastructure	~	~	EUR	412,090.44	412,090.44	0.00
04/07/2023	S	Ancala Infrastructure Fund II	Infrastructure	Infrastructure	~	~	EUR	-16,110.80	-16,110.80	0.00
04/07/2023	P	Border to Coast Private Equity Series 2B	Infrastructure	Infrastructure	~	~	USD	773,770.92	773,770.92	0.00
05/07/2023	P	Border to Coast Private Equity Series 1B	Infrastructure	Infrastructure	~	~	USD	1,548,483.05	1,548,483.05	0.00
07/07/2023	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	USD	303,965.39	303,965.39	0.00
07/07/2023	P	Border to Coast Private Equity Series 1B	Infrastructure	Infrastructure	~	~	USD	46,278.23	46,278.23	0.00
07/07/2023	S	Border to Coast Private Equity Series 1B	Infrastructure	Infrastructure	~	~	USD	-78,242.92	-78,242.92	0.00
11/07/2023	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	USD	29,711.98	29,711.98	0.00
11/07/2023	S	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	USD	-9,713.36	-9,713.36	0.00
12/07/2023	S	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	EUR	-19,936.74	-19,936.74	0.00
14/07/2023	S	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	EUR	-22,154.65	-22,154.65	0.00
17/07/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	37,645.47	37,645.47	0.00
17/07/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	20,113.65	20,113.65	0.00
17/07/2023	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-186,002.37	-186,002.37	0.00
18/07/2023	P	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	4,341,192.29	4,341,192.29	0.00
19/07/2023	P	Blackrock Global Renewable Power Infrastructure Fund III	Infrastructure	Infrastructure	~	~	USD	908,641.37	908,641.37	0.00
20/07/2023	P	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	EUR	474,794.89	474,794.89	0.00
20/07/2023	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	USD	296,059.22	296,059.22	0.00
25/07/2023	S	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	-151,825.62	-151,825.62	0.00
25/07/2023	P	Gresham House British Sustainable Infrastructure Fund II	Infrastructure	Infrastructure	~	~	GBP	4,329,055.07	4,329,055.07	0.00
25/07/2023	S	Gresham House British Sustainable Infrastructure Fund II	Infrastructure	Infrastructure	~	~	GBP	-2,728,233.03	-2,728,233.03	0.00
26/07/2023	S	ACIF Infrastructure LP	Infrastructure	Infrastructure	~	~	EUR	-532,683.80	-532,683.80	0.00
31/07/2023	P	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	2,762,981.78	2,762,981.78	0.00
31/07/2023	S	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	-66,962.91	-66,962.91	0.00
01/08/2023	P	ACIF Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	763,239.01	763,239.01	0.00
01/08/2023	S	Blackrock Global Energy & Power Infrastructure Fund III	Infrastructure	Infrastructure	~	~	USD	-257,215.35	-257,215.35	0.00
04/08/2023	S	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	EUR	-224,241.60	-224,241.60	0.00
04/08/2023	P	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	749,513.71	749,513.71	0.00
10/08/2023	P	Ancala Infrastructure Fund II	Infrastructure	Infrastructure	~	~	EUR	402,268.17	402,268.17	0.00
10/08/2023	S	Ancala Infrastructure Fund II	Infrastructure	Infrastructure	~	~	EUR	-29,896.42	-29,896.42	0.00
16/08/2023	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	EUR	443,479.57	443,479.57	0.00
16/08/2023	S	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	EUR	-187,004.77	-187,004.77	0.00
16/08/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	321,966.69	321,966.69	0.00
16/08/2023	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-146,730.83	-146,730.83	0.00
18/08/2023	P	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	3,678,881.67	3,678,881.67	0.00
22/08/2023	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	USD	35,057.18	35,057.18	0.00
22/08/2023	S	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	USD	-60,116.04	-60,116.04	0.00
23/08/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	981,419.64	981,419.64	0.00
23/08/2023	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-60,823.83	-60,823.83	0.00
30/08/2023	S	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	EUR	-58,564.19	-58,564.19	0.00
31/08/2023	P	Border to Coast Infrastructure Series 2B	Infrastructure	Infrastructure	~	~	USD	2,021,853.20	2,021,853.20	0.00
04/09/2023	P	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	2,418,701.24	2,418,701.24	0.00
04/09/2023	S	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	-608,324.91	-608,324.91	0.00
06/09/2023	S	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	-512,235.94	-512,235.94	0.00
07/09/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	288,222.98	288,222.98	0.00
07/09/2023	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-35,237.89	-35,237.89	0.00
08/09/2023	P	Foresight Energy Infrastructure Partners	Infrastructure	Infrastructure	~	~	EUR	857,075.15	857,075.15	0.00
08/09/2023	S	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	-88,797.43	-88,797.43	0.00
08/09/2023	P	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	10,481.38	10,481.38	0.00
12/09/2023	P	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	79,694.74	79,694.74	0.00

14/09/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	479,194.38	479,194.38	0.00
18/09/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	481,564.90	481,564.90	0.00
18/09/2023	S	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	-216.57	-216.57	0.00
19/09/2023	P	Blackrock Global Energy & Power Infrastructure Fund III	Infrastructure	Infrastructure	~	~	USD	91,831.58	91,831.58	0.00
21/09/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	GBP	1,173,122.00	1,173,122.00	0.00
21/09/2023	P	Access Capital Fund Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	148,463.06	148,463.06	0.00
22/09/2023	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	286,691.50	286,691.50	0.00
28/09/2023	P	Border to Coast Infrastructure Series 2A	Infrastructure	Infrastructure	~	~	USD	483,187.60	483,187.60	0.00
29/09/2023	P	Ancala Infrastructure Fund II LP	Infrastructure	Infrastructure	~	~	EUR	13,700.53	13,700.53	0.00
29/09/2023	P	Ancala Infrastructure Fund II LP	Infrastructure	Infrastructure	~	~	EUR	-516,213.66	-456,545.85	0.00
29/09/2023	P	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	675.02	675.02	0.00
29/09/2023	P	Border to Coast Infrastructure Series 1C	Infrastructure	Infrastructure	~	~	USD	-675.02	-675.02	0.00
								25,896,908.03		
03/07/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	73,639.86	73,639.86	0.00
05/07/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	168,568.22	168,568.22	0.00
13/07/2023	P	La Salle Real Estate Debt Strategies IV	Other Alternatives	Other Alternatives	~	~	EUR	69,132.00	69,132.00	0.00
13/07/2023	P	La Salle Real Estate Debt Strategies IV	Other Alternatives	Other Alternatives	~	~	GBP	2,168,966.15	2,168,966.15	0.00
13/07/2023	S	La Salle Real Estate Debt Strategies IV	Other Alternatives	Other Alternatives	~	~	GBP	-82,756.20	-82,756.20	0.00
02/08/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	561,329.82	561,329.82	0.00
02/08/2023	S	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	-1,072,774.60	-1,072,774.60	0.00
17/08/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	184,937.46	184,937.46	0.00
18/08/2023	P	Hearthstone Residential Fund 2 LP	Other Alternatives	Other Alternatives	~	~	GBP	1,972,359.78	1,972,359.78	0.00
11/09/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	7,508.52	7,508.52	0.00
11/09/2023	S	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	-607,652.05	-607,652.05	0.00
12/09/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	USD	1,032,297.29	1,032,297.29	0.00
14/09/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	EUR	234,255.70	234,255.70	0.00
15/09/2023	P	La Salle Real Estate Debt Strategies IV	Other Alternatives	Other Alternatives	~	~	EUR	321,488.16	321,488.16	0.00
15/09/2023	P	La Salle Real Estate Debt Strategies IV	Other Alternatives	Other Alternatives	~	~	GBP	227,504.15	227,504.15	0.00
21/09/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	423,507.58	423,507.58	0.00
22/09/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	USD	419,536.10	419,536.10	0.00
25/09/2023	S	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	GBP	-68,251.00	-68,251.00	0.00
27/09/2023	S	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	USD	103,044.41	103,044.41	0.00
27/09/2023	P	Border to Coast Climate Opportunities Series 2A	Other Alternatives	Other Alternatives	~	~	USD	-536.05	-536.05	0.00
								6,136,105.30		
20/07/2023	S	Greyhound Retail Park, Chester	Other Debt	Property Debt	~	~	GBP	-109,375.00	-109,375.00	0.00
20/07/2023	S	St Arthur Homes	Other Debt	Property Debt	~	~	GBP	-3,871.71	-3,871.71	0.00
14/08/2023	P	Pantheon Private Debt PSD II	Other Debt	Other Alternatives	~	~	USD	1,989,514.30	1,989,514.30	0.00
14/08/2023	P	Titan - Preston East	Other Debt	Property Debt	~	~	GBP	6,400,250.00	6,400,250.00	0.00
16/08/2023	P	St Arthur Homes	Other Debt	Property Debt	~	~	GBP	1,600,000.00	1,600,000.00	0.00
17/08/2023	P	Leonardo Warehouse Unit	Other Debt	Property Debt	~	~	GBP	218,107.03	218,107.03	0.00
								10,094,624.62		
26/07/2023	S	Border to Coast Overseas Developed Markets Equity Fund	Overseas Equities	Overseas Developed Markets	-15,820,225	158.16	GBP	-25,021,268.07	-21,270,743.00	3,750,525.07
23/08/2023	S	Border to Coast Overseas Developed Markets Equity Fund	Overseas Equities	Overseas Developed Markets	-16,092,044	155.49	GBP	-25,021,518.50	-21,636,210.57	3,385,307.93
								-50,042,786.57		**7,135,833.00**
03/07/2023	P	Border to Coast Private Equity Series 1C	Private Equity	Private Equity	~	~	EUR	115,149.81	115,149.81	0.00

06/07/2023	P	Access Co-Investment Fund Buy-Out Europe II	Private Equity	Private Equity	~	~	EUR	64,378.35	64,378.35	0.00
06/07/2023	S	Border to Coast Private Equity Series 1C	Private Equity	Private Equity	~	~	USD	-3,535.78	-3,535.78	0.00
07/07/2023	P	Capital Dynamics Mid-Market Direct V	Private Equity	Private Equity	~	~	EUR	774,027.09	774,027.09	0.00
07/07/2023	S	Capital Dynamics Mid-Market Direct V	Private Equity	Private Equity	~	~	EUR	-111,803.91	-111,803.91	0.00
14/07/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	93,360.99	93,360.99	0.00
21/07/2023	P	Border to Coast Private Equity Series 1B	Private Equity	Private Equity	~	~	GBP	708,812.50	708,812.50	0.00
27/07/2023	P	Foresight Regional Investment IV LP	Private Equity	Private Equity	~	~	GBP	26,502.67	26,502.67	0.00
31/07/2023	P	Border to Coast Private Equity Series 2A	Private Equity	Private Equity	~	~	USD	583,281.81	583,281.81	0.00
31/07/2023	P	Access Co-Investment Fund Buy-Out Europe II	Private Equity	Private Equity	~	~	EUR	994,950.84	994,950.84	0.00
02/08/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	313,905.33	313,905.33	0.00
02/08/2023	S	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	-2,866.69	-2,866.69	0.00
04/08/2023	P	Crown Secondaries Special Opportunities II	Private Equity	Private Equity	~	~	USD	871,296.86	871,296.86	0.00
04/08/2023	S	Crown Secondaries Special Opportunities II	Private Equity	Private Equity	~	~	USD	-374,350.10	-483,352.90	0.00
08/08/2023	S	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	-112,073.23	-112,073.23	0.00
09/08/2023	P	Border to Coast Private Equity Series 1B	Private Equity	Private Equity	~	~	EUR	430,004.83	430,004.83	0.00
09/08/2023	S	Border to Coast Private Equity Series 1B	Private Equity	Private Equity	~	~	EUR	-632,964.11	-632,964.11	0.00
10/08/2023	P	Border to Coast Private Equity Series 1B	Private Equity	Private Equity	~	~	USD	17,270.59	17,270.59	0.00
11/08/2023	S	Unigestion Secondary V	Private Equity	Private Equity	~	~	EUR	-2,136,386.94	-2,136,386.94	0.00
14/08/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	1,998,836.92	1,998,836.92	0.00
14/08/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	GBP	71,880.08	71,880.08	0.00
14/08/2023	S	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	GBP	-483,799.50	-483,799.50	0.00
15/08/2023	P	Crown Global Opportunities VII	Private Equity	Private Equity	~	~	USD	636,644.58	636,644.58	0.00
15/08/2023	P	Unigestion Direct III Co-Investment	Private Equity	Private Equity	~	~	EUR	3,237,271.13	3,237,271.13	0.00
15/08/2023	P	Unigestion Direct III Global	Private Equity	Private Equity	~	~	EUR	5,309,612.91	5,309,612.91	0.00
15/08/2023	S	Unigestion Direct III Global	Private Equity	Private Equity	~	~	EUR	-428,717.41	-428,717.41	0.00
23/08/2023	P	Border to Coast Private Equity Series 2A	Private Equity	Private Equity	~	~	USD	523,107.91	523,107.91	0.00
30/08/2023	P	Access Capital Fund VIII Growth Buy-Out Europe	Private Equity	Private Equity	~	~	EUR	1,863,811.34	1,863,811.34	0.00
04/09/2023	P	Border to Coast Private Equity Series 1C	Private Equity	Private Equity	~	~	USD	273,056.56	273,056.56	0.00
04/09/2023	P	Border to Coast Private Equity Series 2A	Private Equity	Private Equity	~	~	EUR	372,455.25	372,455.25	0.00
04/09/2023	P	Border to Coast Private Equity Series 2A	Private Equity	Private Equity	~	~	EUR	1,353,810.83	1,353,810.83	0.00
04/09/2023	P	Border to Coast Private Equity Series 1C	Private Equity	Private Equity	~	~	USD	405,352.07	405,352.07	0.00
05/09/2023	S	Capital Dynamics Mid-Market Direct V	Private Equity	Private Equity	~	~	EUR	-969,921.12	-969,921.12	0.00
05/09/2023	P	Capital Dynamics Mid-Market Direct V	Private Equity	Private Equity	~	~	EUR	808,267.60	808,267.60	0.00
07/09/2023	P	Border to Coast Private Equity Series 2A	Private Equity	Private Equity	~	~	USD	1,381,148.65	1,381,148.65	0.00
08/09/2023	S	Foresight Regional Investment IV LP	Private Equity	Private Equity	~	~	GBP	-214,453.36	-214,453.36	0.00
12/09/2023	P	Border to Coast Private Equity Series 1C	Private Equity	Private Equity	~	~	USD	495,611.58	495,611.58	0.00
12/09/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	1,678,535.81	1,678,535.81	0.00
13/09/2023	P	Border to Coast Private Equity Series 2A	Private Equity	Private Equity	~	~	EUR	488,186.20	488,186.20	0.00
14/09/2023	P	Border to Coast Private Equity Series 1C	Private Equity	Private Equity	~	~	USD	33,588.35	33,588.35	0.00
14/09/2023	P	Hermes GPE Innovation Fund	Private Equity	Private Equity	~	~	GBP	525,425.29	525,425.29	0.00
14/09/2023	S	Hermes GPE Innovation Fund	Private Equity	Private Equity	~	~	GBP	-261,408.08	-261,408.08	0.00
15/09/2023	S	Blackrock Private Opportunities Fund IV	Private Equity	Private Equity	~	~	USD	-667,958.74	-667,958.74	0.00
18/09/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	EUR	20,634.93	20,634.93	0.00
18/09/2023	P	Border to Coast Private Equity Series 1B	Private Equity	Private Equity	~	~	USD	347,244.30	347,244.30	0.00
19/09/2023	P	Border to Coast Private Equity Series 1B	Private Equity	Private Equity	~	~	USD	106,214.65	106,214.65	0.00
21/09/2023	S	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	-195,741.63	-195,741.63	0.00
21/09/2023	P	Capital Dynamics LGPS Collective Private Equity for Pools 18/19	Private Equity	Private Equity	~	~	GBP	300,000.00	300,000.00	0.00
25/09/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	366,557.73	366,557.73	0.00
25/09/2023	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	98,163.53	98,163.53	0.00
28/09/2023	S	Border to Coast Private Equity Series 1C	Private Equity	Private Equity	~	~	USD	-5,327.35	-5,327.35	0.00
								21,087,051.92		

04/08/2023	P	BAE Systems, Washington	Property Unit Trusts/Direct Property	Property Unit Trusts/Direct Property	~	~	GBP	52,090,834.59	52,090,834.59	0.00
								52,090,834.59		
09/08/2023	S	Border to Coast Uk Listed Equity Fund	UK Equities	United Kingdom	-20,195,095	123.93	GBP	-25,027,780.83	-23,747,562.03	1,280,218.80
13/09/2023	S	Border to Coast Uk Listed Equity Fund	UK Equities	United Kingdom	-20,263,769	123.51	GBP	-25,027,780.83	-23,828,316.43	1,199,464.40
								-50,055,561.66		**2,479,683.20**
Periods July, August and September 2023 (Cumulative) Total								**15,207,176.24**		**9,615,516.20**
Total Profit - NB: Losses are shown with a ( )										

	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	4.66%	5.20%	5.22%	5.29%	5.15%	3.76%	4.43%	2.20%	0.00%	0.00%	0.00%
Amount Invested	53,100,000	24,500,000	19,600,000	56,400,000	10,900,000	6,000,000	16,000,000	2,500,000	0	0	0
Proportion of Cash	28.10%	12.96%	10.37%	29.84%	5.77%	3.17%	8.47%	1.32%	0.00%	0.00%	0.00%

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Teesside Pension Fund - Valuation

30 Sep 23

Account number TEES01

TEESSIDE PENSION FUND

◆ 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	0.90	AUD	85.000	0.000	0.30000000	13.480
Common Stock YOUNG AUSTRALIAN MINES LTD SEDOL : 6741626	0.00	AUD	225,391.000	287,505.650	0.06900000	8,223.540
Total Australia	**0.90**		**225,476.000**	**287,505.650**		**8,237.020**
Europe Region						
Common Stock ACIF INFRASTRUCTURE FUND LP CUSIP : 9936FC996	0.00	EUR	25,399,381.460	22,566,925.040	0.75880310	16,718,220.800
Total Europe Region	**0.00**		**25,399,381.460**	**22,566,925.040**		**16,718,220.800**
Guernsey, Channel Islands						
Common Stock AMEDEO AIR FOUR PL ORD NPV SEDOL : BNDVLS5	0.00	GBP	4,666,665.000	3,907,776.010	0.46500000	2,169,999.230
Total Guernsey, Channel Islands	**0.00**		**4,666,665.000**	**3,907,776.010**		**2,169,999.230**
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 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**		**1,686,400.000**	**2,383,993.820**		**80,193.800**
Total Common stock	**0.90**		**31,977,922.460**	**29,146,200.520**		**18,976,650.850**
Funds - common stock						
Guernsey, Channel Islands						
Funds - Common Stock VISTRA FD SERVICES DARWIN LEISURE DEV D GBP SEDOL : BD41T35	0.00	GBP	15,000,000.000	15,000,000.000	1.10360000	16,554,000.000
Total Guernsey, Channel Islands	**0.00**		**15,000,000.000**	**15,000,000.000**		**16,554,000.000**
United Kingdom						
Funds - Common Stock BORDER TO COAST PE UK LISTED EQUITY A GBP ACC SEDOL : BDD86K3	0.00	GBP	483,802,764.520	502,465,376.850	1.24690000	603,253,667.080
Total United Kingdom	**0.00**		**483,802,764.520**	**502,465,376.850**		**603,253,667.080**

◆ Asset Detail - Customizable

Asset Subcategory

Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Equities						
Total Funds - common stock	**0.00**		**498,802,764.520**	**517,465,376.850**		**619,807,667.080**
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	1.28740000	18,486,502.010
Total Guernsey, Channel Islands	**0.00**		**14,359,563.469**	**15,000,000.000**		**18,486,502.010**
Japan						
Unit Trust Equity JPN SCREENED INX EQY SUB-FND-HKHX SEDOL : 001533W	0.00	GBP	48,440,992.757	89,842,364.060	2.36010000	114,325,587.010
Total Japan	**0.00**		**48,440,992.757**	**89,842,364.060**		**114,325,587.010**
Luxembourg						
Unit Trust Equity ABERDEEN STANDARD EUR PPTY GROWTH FD LP SEDOL : 8A8TB3U	0.00	EUR	324.970	20,636,888.600	118,644.87000000	33,444,911.780
Total Luxembourg	**0.00**		**324.970**	**20,636,888.600**		**33,444,911.780**
Pacific Region						
Unit Trust Equity ASIA PFC EX JPN SCREEN INX EQ SUB-FND-HKHY SEDOL : 001532W	0.00	GBP	50,692,305.509	242,515,511.220	6.10370000	309,410,625.140
Total Pacific Region	**0.00**		**50,692,305.509**	**242,515,511.220**		**309,410,625.140**
United Kingdom						
Unit Trust Equity CANDOVER INVSTMNTS PLC GBP0.25 SEDOL : 0171315	0.00	GBP	60,000.000	321,939.430	0.00000000	0.000
Unit Trust Equity EUR EX UK SCREEN INX EQ SUB-FND-HKGY SEDOL : 4A8NH9U	0.00	GBP	15,403,278.712	97,842,558.840	8.50310000	130,975,619.220
Unit Trust Equity LOCAL AUTHORITIES LOCAL AUTHORITIES PROPERTY SEDOL : 0521664	0.00	GBP	1,368,174.000	1,282,865.490	2.84496400	3,892,405.780
Unit Trust Equity NA SCREEN INX EQ SUB-FND-HKHQ SEDOL : 1A8NH9U	0.00	GBP	2,621,178.211	24,012,835.230	15.70400000	41,162,982.630
Total United Kingdom	**0.00**		**19,452,630.923**	**123,460,198.990**		**176,031,007.630**
Total Unit trust equity	**0.00**		**132,945,817.628**	**491,454,962.870**		**651,698,633.570**
Total Equities	**0.90**		**663,726,504.608**	**1,038,066,540.240**		**1,290,482,951.500**

Asset Detail - Customizable

Asset Subcategory / Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Real Estate						
Real estate						
Europe Region						
Real Estate CAPITAL DYNAMICS MID-MARKET DIRECT V CUSIP : 993RBZ993	0.00	EUR	16,073,159.510	13,868,646.840	1.29385380	18,039,491.020
Real Estate La Salle Real Estate Debt Strategies IV CUSIP : 9944J7997	0.00	EUR	9,668,274.610	8,413,367.210	0.93695760	7,857,904.290
Total Europe Region	**0.00**		**25,741,434.120**	**22,282,014.050**		**25,897,395.310**
United Kingdom						
Real Estate HEARTHSTONE RESIDENTIAL FUND 1 LIMITED PARTNERSHIP CUSIP : 9936FD994	0.00	GBP	10,000,000.010	10,000,000.010	0.95010870	9,501,087.010
Real Estate HEARTHSTONE RESIDENTIAL FUND 2 CUSIP : 9942CJ992	0.00	GBP	15,713,132.940	15,713,132.940	0.91698840	14,408,760.630
Real Estate TEESSIDE PENSION FUND - DIRECT PROPERTY CUSIP : 9936HG995	0.00	GBP	448,746,433.310	448,746,433.310	1.02940830	461,943,303.040
Total United Kingdom	**0.00**		**474,459,566.260**	**474,459,566.260**		**485,853,150.680**
Total Real estate	**0.00**		**500,201,000.380**	**496,741,580.310**		**511,750,545.990**
Funds - real estate						
United Kingdom						
Funds - Real Estate DARWIN LEISURE PRO UNITS CLS 'C' SEDOL : B29MQ57	0.00	GBP	6,493,057.480	10,611,644.050	2.54080000	16,497,560.450
Funds - Real Estate DARWIN LEISURE PROPERTY FUND UNITS K GBP INC SEDOL : 4A9TBEU	0.00	GBP	34,527,436.047	35,000,000.000	0.70470000	24,331,484.180
Funds - Real Estate HERMES INVEST MNGM HERMES PROPERTY UNIT TRUST SEDOL : 0426219	0.00	GBP	2,589,184.000	15,720,126.330	6.20600000	16,068,475.900
Funds - Real Estate LEGAL AND GENERAL MANAGED PROPERTY FUND SEDOL : 004079W	0.00	GBP	108,263.760	385,000.000	58.55020000	6,338,864.800
Funds - Real Estate THREADNEEDLE PROP THREADNEEDLE PROP UNITTRST SEDOL : 0508667	44,783.54	GBP	12,750.000	1,527,939.200	263.23000000	3,356,182.500
Total United Kingdom	**44,783.54**		**43,730,691.287**	**63,244,709.580**		**66,592,567.830**
Total Funds - real estate	**44,783.54**		**43,730,691.287**	**63,244,709.580**		**66,592,567.830**
Total Real Estate	**44,783.54**		**543,931,691.667**	**559,986,289.890**		**578,343,113.820**

**Generated by Northern Trust from periodic data on 06 Nov 23*

◆ 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 INFRASTRUCTURE II - EUR CUSIP : 993QEX997	0.00	EUR	15,703,376.700	13,794,658.520	1.12656850	15,345,762.480
Partnerships ACCESS CAPITAL FUND VIII GROWTH BUY OUT EUROPE CUSIP : 993KDB999	0.00	EUR	18,964,108.800	16,366,845.290	1.37796760	22,667,794.350
Partnerships ACCESS CAPITAL, ACIF INFRASTRUCTURE II LP (FUND 2) CUSIP : 993SRL995	0.00	EUR	9,696,000.000	8,390,933.510	1.04354110	8,776,876.450
Partnerships ACCESS CAPITAL, CO-INVESTMENT FUND BUY-OUT EUROPE II CUSIP : 993SRM993	0.00	EUR	10,275,000.000	8,850,186.340	1.00387600	8,947,459.100
Partnerships Darwin Bereavement Services Fund, Incomeunits CUSIP : 993XBG992	0.00	GBP	30,000,000.000	30,000,000.000	1.01311860	30,393,558.000
Partnerships UNIGESTION DIRECT III - EUR CUSIP : 994RLP993	0.00	EUR	8,147,651.120	7,213,426.370	0.90413300	6,390,025.110
Total Europe Region	**0.00**		**92,786,136.620**	**84,616,050.030**		**92,521,475.490**
Global Region						
Partnerships CAPITAL DYNAMICS GLOBAL SECONDARIES V - GBP CUSIP : 993LJT992	0.00	GBP	11,042,925.550	11,042,925.550	1.65977380	18,328,758.500
Partnerships CROWN CO INVESTMENT OPPORTUNITIES II PLCS USD CUSIP : 993BRL992	0.00	USD	16,322,130.030	12,309,133.550	2.04244270	27,313,106.880
Partnerships INSIGHT IIFIG SECURED FINANCE FUND II (GBP) CUSIP : 9946P0990	0.00	GBP	50,000,000.000	50,000,000.000	0.98732420	49,366,210.000
Partnerships LGPS COLLECTIVE PRIVATE EQUITY FOR POOLS2018/19 - GBP CUSIP : 993LRK992	0.00	GBP	6,979,550.000	6,979,550.000	1.36462800	9,524,489.360
Partnerships PANTHEON GLOBAL CO-INVESTMENT OPPORTUNITIES IV CUSIP : 993FYQ994	0.00	USD	24,363,063.000	19,141,292.790	1.64473410	32,830,082.520
Partnerships UNIGESTION DIRECT II - EUR CUSIP : 993MTE992	0.00	EUR	16,815,965.760	14,547,379.230	1.32593310	19,341,103.380
Total Global Region	**0.00**		**125,523,634.340**	**114,020,281.120**		**156,703,750.640**
United Kingdom						
Partnerships ANCALA INFRASTRUCTURE FUND II SCSP CUSIP : 993FSE998	0.00	EUR	18,419,345.370	16,217,915.910	1.14353370	18,270,943.660
Partnerships BORDER TO COAST CLIMATE OPPORTUNITIES SERIES 2A CUSIP : 994MVX996	0.00	GBP	13,719,048.980	13,719,048.980	0.96342630	13,217,292.600
Partnerships BORDER TO COAST EMERGING MARKET HYBRID FUND - GBP CUSIP : 9942CC997	0.00	GBP	233,625,118.960	233,625,118.960	0.97398480	227,547,314.770
Partnerships BORDER TO COAST INFRASTRUCTURE SERIES 1 CUSIP : 993FT4999	0.00	USD	89,411,106.930	70,961,405.910	1.01939910	74,675,838.320
Partnerships BORDER TO COAST INFRASTRUCTURE SERIES 1B CUSIP : 993KGJ999	0.00	USD	32,234,114.930	25,192,664.580	1.06691230	28,176,617.820

◆ 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 Kingdom					
Partnerships BORDER TO COAST INFRASTRUCTURE SERIES 1C CUSIP : 9942A6992	0.00 GBP	33,077,329.450	33,077,329.450	1.15694660	38,268,703.840
Partnerships BORDER TO COAST INFRASTRUCTURE SERIES 2 A (GBP) CUSIP : 994NWK991	0.00 GBP	47,228,716.870	47,228,716.870	0.97771440	46,176,196.580
Partnerships BORDER TO COAST PE OVERSEAS DEV MKTS EQTY A CUSIP : 993BRK994	0.00 GBP	1,410,180,187.320	1,410,180,187.320	1.17730430	1,660,211,198.310
Partnerships BORDER TO COAST PRIVATE EQUITY SERIES 1 CUSIP : 993FYP996	0.00 USD	86,204,283.000	66,977,230.830	1.35722150	95,857,028.960
Partnerships BORDER TO COAST PRIVATE EQUITY SERIES 1B CUSIP : 993U46998	0.00 USD	36,648,294.280	29,112,856.510	1.27316150	38,228,006.630
Partnerships BORDER TO COAST PRIVATE EQUITY SERIES 1C CUSIP : 993XGK998	0.00 GBP	22,354,495.582	22,354,495.580	0.96903220	21,662,226.030
Partnerships BORDER TO COAST PRIVATE EQUITY SERIES 2A- GBP CUSIP : 994JQY997	0.00 GBP	9,628,026.520	9,628,026.520	1.01003200	9,724,614.880
Partnerships CAPITAL DYNAMICS CLEAN ENERGY INFRASTRUCTURE VIII (CO INVESTMENT) LP CUSIP :	0.00 GBP	8,750,377.050	8,750,377.050	1.04861980	9,175,818.630
Partnerships CAPITAL DYNAMICS CLEAN ENERGY AND INFRASTRUCTURE VIII SCSp CUSIP : 993FP0991	0.00 GBP	17,500,754.070	17,500,754.070	1.00998590	17,675,514.850
Partnerships FORESIGHT REGIONAL INVESTMENT LP CUSIP : 994JXS992	0.00 GBP	563,055.040	563,055.040	0.62921140	354,280.650
Partnerships GB Bank Limited CUSIP : 993QJB990	0.00 GBP	40,080,000.000	40,080,000.000	1.00000000	40,080,000.000
Partnerships GRESHAM HOUSE BSI HOUSING FUND LP CUSIP : 993FP6998	0.00 GBP	15,638,997.820	15,638,997.820	1.10704080	17,313,008.660
Partnerships GRESHAM HOUSE BSI INFRASTRUCTURE LP CUSIP : 993FP5990	0.00 GBP	19,070,660.400	19,070,660.400	1.35049150	25,754,764.770
Partnerships GRESHAM HOUSE, BRITISH SUSTAINABLE INFRASTRUCTURE FUND II CUSIP : 994FXD993	0.00 GBP	18,010,845.940	18,010,845.940	1.04463760	18,814,806.880
Partnerships GREYHOUND RETAIL PARK, CHESTER CUSIP : 9948YV998	0.00 GBP	19,825,238.000	19,825,238.000	0.98141810	19,456,847.410
Partnerships HERMES GPE INNOVATION FUND CUSIP : 993NEB992	0.00 GBP	13,822,040.760	13,822,040.760	1.25744120	17,380,403.520
Partnerships INNISFREE PFI CONTINUATION FUND CUSIP : 9936FE992	0.00 GBP	8,672,972.000	8,672,972.000	1.09410900	9,489,176.720
Partnerships INNISFREE PFI SECONDARY FUND 2 CUSIP : 9936FF999	0.00 GBP	7,728,331.000	7,728,331.000	1.17296390	9,065,053.270
Partnerships LEONARDO WAREHOUSE UNIT CUSIP : 9948YW996	0.00 GBP	26,130,271.110	26,130,271.110	0.98994600	25,867,557.360
Partnerships St Arthur Homes CUSIP : 994NJF997	0.00 GBP	9,115,266.000	9,115,266.000	1.00000000	9,115,266.000
Partnerships TPF CO-INVESTMENT BSI LP - WASTE KNOT GBP CUSIP : 994FFL995	0.00 GBP	10,000,000.000	10,000,000.000	1.13347380	11,334,738.000
Total United Kingdom					

◆ Asset Detail - Customizable

Asset Subcategory Description/Asset ID	Accrued Income/Expense	Curr	Nominal	Book Cost	Market Price	Market Value
Venture Capital and Partnerships						
Partnerships	**0.00**		**2,247,638,877.382**	**2,193,183,806.610**		**2,502,893,219.120**
United States						
Partnerships BLACKROCK GLOBAL ENERGY AND POWER INFRASTRUCTURE FUND III CUSIP :	0.00	USD	19,739,512.000	15,613,263.320	0.95478530	15,441,394.740
Partnerships BLACKROCK GLOBAL RENEWABLE POWER FUND III CUSIP : 993QHY992	0.00	USD	15,504,202.550	12,217,485.970	1.09198770	13,871,121.290
Partnerships BLACKROCK PRIVATE OPPORTUNITIES FUND IV TOTAL CUSIP : 993FYK997	0.00	USD	20,105,273.000	15,211,791.120	1.26124040	20,775,536.010
Partnerships BRIDGES EVERGREEN TPF HOUSING CO-INVEST LP CUSIP : 993XEU998	0.00	GBP	765,180.380	765,180.380	0.92947230	711,213.970
Partnerships CROWN CO INVESTMENT OPPORTUNITIES III CUSIP : 993XX2999	0.00	USD	1,560,000.000	1,227,428.300	1.00000000	1,278,112.220
Partnerships CROWN CO-INVEST OPPORTUNITIES III CUSIP : 993XBM999	0.00	USD	11,910,000.000	9,219,630.710	1.12791700	11,006,095.920
Partnerships CROWN GLOBAL OPPORTUNITIES VII CUSIP : 993FYN991	0.00	USD	20,396,323.760	16,199,901.220	1.31485790	21,972,279.080
Partnerships Crown Growth Opportunities Global III fund CUSIP : 993FYM993	0.00	USD	27,380,724.490	20,496,138.420	1.65824870	37,199,661.690
Partnerships FORESIGHT ENERGY INFRASTRUCTURE PARTNERS CUSIP : 993FS9999	0.00	USD	11,441,439.310	9,371,546.050	0.92407700	8,662,299.820
Partnerships LGT CAPITAL CROWN SECONDARIES SPECIAL OPPORTUNITIES II CUSIP : 993QEY995	0.00	USD	17,529,147.100	13,646,323.430	1.32621410	19,046,659.400
Partnerships PANTHEON SENIOR DEBT SECONDARIES II CUSIP : 993UAP999	0.00	USD	25,806,728.480	20,346,097.410	0.62569240	13,229,341.330
Partnerships UNIGESTION SA CUSIP : 993FYL995	0.00	USD	29,857,402.300	22,917,577.350	1.35037720	33,033,265.340
Total United States	**0.00**		**201,995,933.370**	**157,232,363.680**		**196,226,980.810**
Total Partnerships	**0.00**		**2,667,944,581.712**	**2,549,052,501.440**		**2,948,345,426.060**
Total Venture Capital and Partnerships	**0.00**		**2,667,944,581.712**	**2,549,052,501.440**		**2,948,345,426.060**

◆ 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	96,854,761.450	80,595,460.340	1.05494570	83,713,494.530
Total Global Region	**0.00**		**96,854,761.450**	**80,595,460.340**		**83,713,494.530**
Total Hedge equity	**0.00**		**96,854,761.450**	**80,595,460.340**		**83,713,494.530**
Total Hedge Fund	**0.00**		**96,854,761.450**	**80,595,460.340**		**83,713,494.530**

**Generated by Northern Trust from periodic data on 06 Nov 23*

◆ 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	97,715.75	0.000	0.000	0.00000000	0.000
Recoverable taxes DKK - Danish krone	295,243.49	0.000	0.000	0.00000000	0.000
Recoverable taxes EUR - Euro	1,116,965.69	0.000	0.000	0.00000000	0.000
Recoverable taxes CHF - Swiss franc	2,416,364.83	0.000	0.000	0.00000000	0.000
Total	**3,926,289.76**	**0.000**	**0.000**		**0.000**
Total Recoverable taxes	**3,926,289.76**	**0.000**	**0.000**		**0.000**
Total All Other	**3,926,289.76**	**0.000**	**0.000**		**0.000**

**Generated by Northern Trust from periodic data on 06 Nov 23*

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	0.27	866.980	866.980	1.00000000	866.980
Cash THB - Thai baht	0.00	4,860.130	4,860.130	1.00000000	4,860.130
Cash USD - United States dollar	162.71	72,534.580	72,534.580	1.00000000	72,534.580
Total	**162.98**	**78,261.690**	**78,261.690**		**78,261.690**
Total Cash	**162.98**	**78,261.690**	**78,261.690**		**78,261.690**
Cash (externally held)					
Cash (externally held) GBP - British pound sterling	0.00	189,975,829.660	189,975,829.660	1.00000000	189,975,829.660
Cash (externally held) EUR - Euro	0.00	0.340	0.340	1.00000000	0.340
Total	**0.00**	**189,975,830.000**	**189,975,830.000**		**189,975,830.000**
Total Cash (externally held)	**0.00**	**189,975,830.000**	**189,975,830.000**		**189,975,830.000**
Funds - short term investment					
Funds - Short Term Investment GBP - British pound sterling	3,001.85	707,000.000	707,000.000	1.00000000	707,000.000
Total	**3,001.85**	**707,000.000**	**707,000.000**		**707,000.000**
Total Funds - short term investment	**3,001.85**	**707,000.000**	**707,000.000**		**707,000.000**
Total Cash and Cash Equivalents	**3,164.83**	**190,761,091.690**	**190,761,091.690**		**190,761,091.690**
Report Total:	**3,974,239.03**	**4,163,218,631.127**	**4,418,461,883.600**		**5,091,646,077.600**

Asset Detail - Customizable

Asset Subcategory

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

ASSET	BOOK COST	PRICE	MARKET VALUE	FUND %
GROWTH ASSETS				
UK EQUITIES				
BORDER TO COAST PE UK LISTED EQUITY A GBP ACC	592,735,585.77	1.26	603,253,667.08	11.83%
AFREN ORD GBP0.01	1,089,449.06	0.02	17,850.00	0.00%
CARILLION ORD GBP0.50	0.00	0.14	61,968.80	0.00%
CANDOVER INVESTMENTS PLC GBP0.25	321,939.43	0.00	0.00	0.00%
NEW WORLD RESOURCE ORD EUR0.0004 A	1,294,544.76	0.00	375.00	0.00%
TOTAL UK EQUITIES			**603,333,860.88**	**11.83%**
OVERSEAS EQUITIES				
YOUNG AUSTRALIAN MINES LTD	225,391.00	0.07	8,223.54	0.00%
FINEXIA FINL GROUP NPV	85.00	0.29	13.48	0.00%
ASIA PACIFIC EX JAPAN SCREEN INDEX EQUITY SUB-FUND	242,515,511.22	6.39	309,410,625.14	6.07%
JAPAN SCREENED INDEX EQUITY SUB-FUND	89,842,364.06	2.34	114,325,587.01	2.24%
EUROPE EX UK SCREENED INDEX EQUITY SUB-FUND	97,842,558.84	8.82	130,975,619.22	2.57%
NORTH AMERICA SCREENED INDEX EQUITY SUB-FUND	24,012,835.23	15.89	41,162,982.63	0.81%
BORDER TO COAST PE OVERSEAS DEV MKTS EQTY A	1,426,458,423.85	1.18	1,655,061,193.86	32.45%
BORDER TO COAST EMERGING MARKET HYBRID FUND	240,527,251.16	0.97	203,545,202.28	3.99%
TOTAL OVERSEAS EQUITIES			**2,454,489,447.16**	**48.12%**
TOTAL EQUITIES			**3,057,823,308.04**	**59.95%**
PRIVATE EQUITY				
CAPITAL DYNAMICS LGPS COLLECTIVE PRIVATE EQUITY FOR POOLS 18/19	6,979,550.00	1.36	9,524,489.36	0.19%
CROWN CO INVESTMENT OPPORTUNITIES II PLCS USD	12,309,133.55	2.04	27,313,106.88	0.54%
CROWN CO INVESTMENT OPPORTUNITIES III	10,447,059.01	1.14	12,284,208.14	0.24%
CROWN SECONDARIES SPECIAL OPPORTUNITIES II	13,140,741.71	1.34	19,046,659.40	0.37%
UNIGESTION SA	22,917,577.35	1.35	33,033,265.34	0.65%
PANTHEON GLOBAL CO-INVESTMENT OPPORTUNITIES IV	19,141,292.79	1.63	32,830,082.52	0.64%
CROWN GLOBAL OPPORTUNITIES VII	15,563,768.96	1.31	21,972,279.08	0.43%
CROWN GROWTH OPPORTUNITIES GLOBAL III	20,496,138.42	1.52	37,199,661.69	0.73%

BLACKROCK PRIVATE OPPORTUNITIES FUND IV TOTAL	15,821,278.95	1.20	20,775,536.01	0.41%
BORDER TO COAST PRIVATE EQUITY SERIES 1A	65,530,115.76	1.09	101,019,774.00	1.98%
BORDER TO COAST PRIVATE EQUITY SERIES 1B	28,741,211.36	0.99	38,228,006.63	0.75%
BORDER TO COAST PRIVATE EQUITY SERIES 1C	21,162,341.01	1.04	21,921,931.50	0.43%
BORDER TO COAST PRIVATE EQUITY SERIES 2A	4,957,913.17	0.76	9,724,614.88	0.19%
UNIGESTION DIRECT II	14,547,379.23	1.33	19,341,103.38	0.38%
ACCESS CAPITAL FUND VIII GROWTH BUY OUT EUROPE	14,502,844.73	1.43	22,667,794.35	0.44%
ACCESS CAPITAL CO INVESTMENT FUND BUY OUT EUROPE II	7,858,117.11	0.98	8,947,459.10	0.18%
HERMES GPE INNOVATION FUND	13,341,398.86	1.32	17,380,403.52	0.34%
CAPITAL DYNAMICS GLOBAL SECONDARIES V	11,042,925.55	1.66	18,328,758.50	0.36%
CAPITAL MID-MARKET DIRECT V	13,201,080.63	1.25	18,039,491.02	0.35%
FORESIGHT REGIONAL INVESTMENTS LP	777,508.40	0.85	354,280.65	0.01%
UNIGESTION DIRECT III	7,213,426.37	0.90	6,390,025.11	0.13%
PRIVATE EQUITY			**496,322,931.06**	**9.73%**
GB BANK LIMITED	40,080,000.00	1.00	40,080,000.00	0.79%
PRIVATE EQUITY - LOCAL INVESTMENT			**40,080,000.00**	**0.79%**
TOTAL PRIVATE EQUITY			**536,402,931.06**	**10.52%**

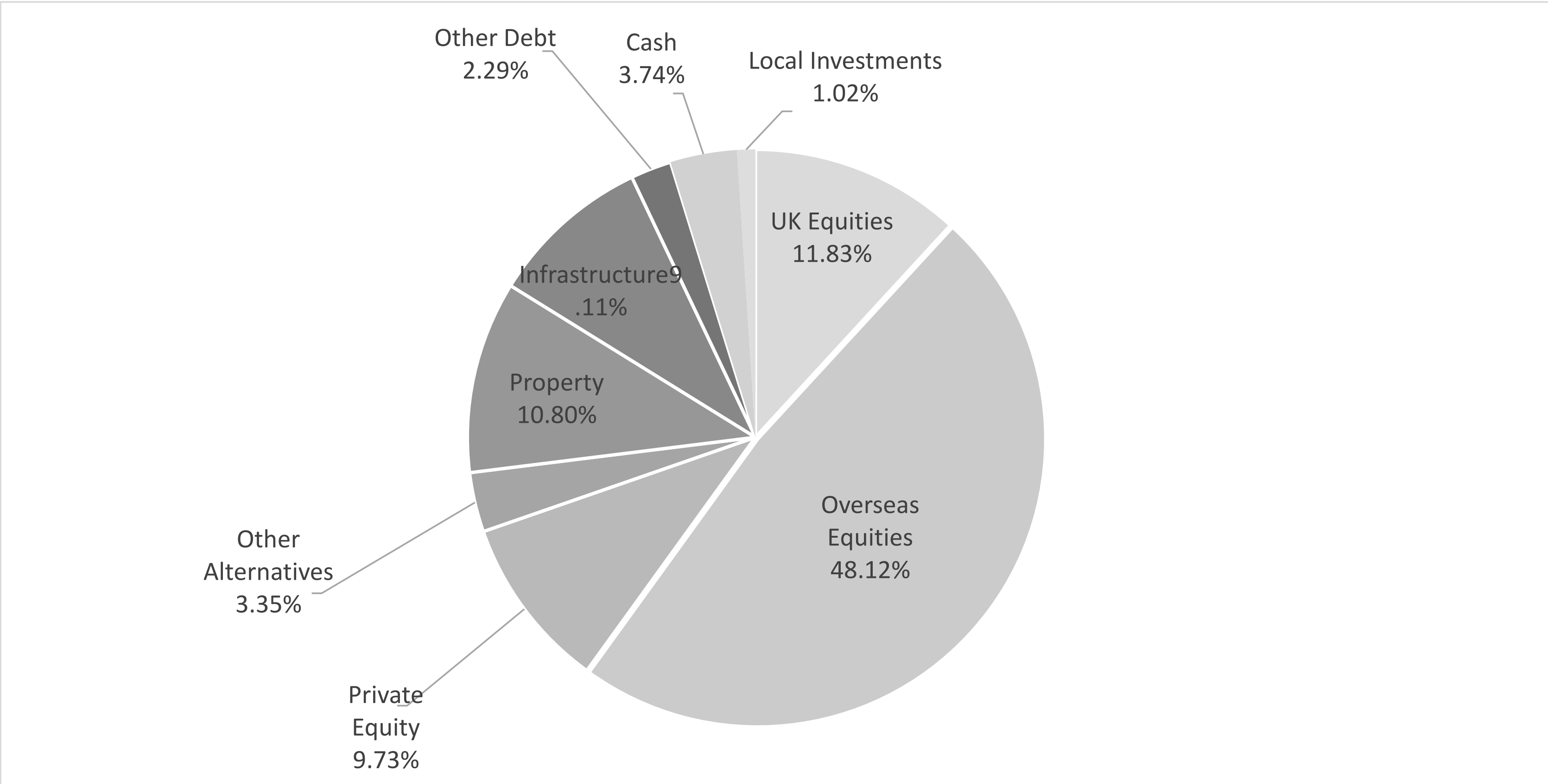
OTHER ALTERNATIVES				
AMEDEO AIR FOUR PLUS LTD	3,907,776.01	0.02	2,169,999.23	0.04%
BORDER TO COAST CLIMATE OPPORTUNITIES SERIES 2A	12,551,872.31	1.02	13,217,292.60	0.26%
DARWIN LEISURE PRO UNITS CLS 'C'	10,611,644.05	2.53	16,497,560.45	0.32%
DARWIN BEREAVEMENT SERVICES FUND CLASS B ACCUMULATION	15,000,000.00	1.27	18,486,502.01	0.36%
DARWIN BEREAVEMENT SERVICES FUND, INCOME UNITS	30,000,000.00	1.01	30,393,558.00	0.60%
DARWIN LEISURE DEVELOPMENT FUND ACCUMULATION UNITS - D CLASS	15,000,000.00	1.10	16,554,000.00	0.32%
DARWIN LEISURE PROPERTY FUND, K INCOME UNITS	35,000,000.00	0.70	24,331,484.18	0.48%
HEARTHSTONE RESIDENTIAL FUND 1 LIMITED PARTNERSHIP	10,000,000.01	0.96	9,501,087.01	0.19%
HEARTHSTONE RESIDENTIAL FUND 2	13,740,773.16	0.91	14,408,760.63	0.28%
GRESHAM HOUSE BSI HOUSING LP	15,638,997.82	1.10	17,313,008.66	0.34%
LA SALLE REAL ESTATE DEBT STRATEGIES IV	7,833,117.70	0.95	7,857,904.29	0.15%
OTHER ALTERNATIVES			**170,731,157.06**	**3.35%**
BRIDGES EVERGREEN TPF HOUSING CO-INVESTMENT LP	765,180.38	0.93	711,213.97	0.01%
OTHER ALTERNATIVES - LOCAL INVESTMENT			**711,213.97**	**0.01%**

TOTAL OTHER ALTERNATIVES			**171,442,371.03**	**3.36%**
PROPERTY				
DIRECT PROPERTY				
TEESSIDE PENSION FUND - DIRECT PROPERTY	399,152,598.72	1.03	487,500,000.00	9.56%
TOTAL DIRECT PROPERTY			**487,500,000.00**	**9.56%**
PROPERTY UNIT TRUSTS				
ABERDEEN STANDARD LIFE EUROPEAN PROPERTY GROWTH FUND	20,636,888.60	120,966.80	33,444,911.78	0.66%
LOCAL AUTHORITIES LOCAL AUTHORITIES PROPERTY	1,282,865.49	2.87	3,892,405.78	0.08%
HERMES PROPERTY PUT	15,720,126.33	6.37	16,068,475.90	0.32%
THREADNEEDLE PROP PROPERTY GBP DIS	1,527,939.20	265.81	3,356,182.50	0.07%
LEGAL AND GENERAL MANAGED PROPERTY FUND	385,000.00	58.66	6,338,864.80	0.12%
TOTAL PROPERTY UNIT TRUSTS			**63,100,840.76**	**1.24%**
TOTAL PROPERTY			**550,600,840.76**	**10.80%**
PROTECTION ASSETS				
INFRASTRUCTURE				
ACIF INFRASTRUCTURE FUND LP	13,421,191.08	0.74	16,718,220.80	0.33%
ACCESS CAPITAL FUND INFRASTRUCTURE II	13,946,299.76	1.11	15,345,762.48	0.30%
ACCESS CAPITAL, ACIF INFRASTRUCTURE II LP (FUND 2)	7,629,082.71	1.02	8,776,876.45	0.17%
INNISFREE PFI CONTINUATION FUND	8,672,972.00	1.20	9,489,176.72	0.19%
INNISFREE PFI SECONDARY FUND 2	7,728,331.00	1.17	9,065,053.27	0.18%
BORDER TO COAST INFRASTRUCTURE SERIES 1A	67,321,263.18	0.87	78,202,723.00	1.53%
BORDER TO COAST INFRASTRUCTURE SERIES 1B	24,942,901.60	0.89	28,176,617.82	0.55%
BORDER TO COAST INFRASTRUCTURE SERIES 1C	33,456,001.70	1.08	41,539,031.00	0.81%
BORDER TO COAST INFRASTRUCTURE SERIES 2A	32,109,979.63	0.98	46,176,196.58	0.91%
BLACKROCK GLOBAL ENERGY & POWER INFRASTRUCTURE FUND III	15,874,716.01	0.98	15,441,394.74	0.30%
BLACKROCK GLOBAL RENEWABLE POWER FUND III	11,308,739.08	1.06	13,871,121.29	0.27%
CAPITAL DYNAMICS CLEAN ENERGY INFRASTRUCTURE VIII (CO INVESTMENT) LP	8,750,377.05	1.04	9,175,818.63	0.18%
CAPITAL DYNAMICS CLEAN ENERGY AND INFRASTRUCTURE VIII SCSp	17,500,754.07	1.01	17,675,514.85	0.35%

IIF UK I LP	80,595,460.34	1.05	83,713,494.53	1.64%
ANCALA INFRASTRUCTURE FUND II SCSP	16,729,179.08	1.12	18,270,943.66	0.36%
FORESIGHT ENERGY INFRASTRUCTURE PARTNERS	8,516,087.18	0.93	8,662,299.82	0.17%
GRESHAM HOUSE BSI INFRASTRUCTURE LP	19,070,660.40	1.21	25,754,764.77	0.50%
GRESHAM HOUSE BRITISH SUSTAINABLE INFRASTRUCTURE FUND II	18,010,845.93	1.07	18,814,806.88	0.37%
INFRASTRUCTURE			**464,869,817.29**	**9.11%**
CO-INVESTMENT BSI LP - WASTE KNOT	10,000,000.00	1.11	11,334,738.00	0.22%
INFRASTRUCTURE - LOCAL INVESTMENT			**11,334,738.00**	**0.22%**
TOTAL INFRASTRUCTURE			**476,204,555.29**	**9.34%**
<u>OTHER DEBT</u>				
INSIGHT IIFIG SECURED FINANCE II FUND	50,000,000.00	0.98	49,366,210.00	0.97%
GRAFTONGATE INVESTMENTS LTD (LEONARDO WAREHOUSE UNIT)	26,130,271.11	1.00	25,867,557.36	0.51%
GREYHOUND RETAIL PARK CHESTER	19,715,863.00	0.98	19,456,847.41	0.38%
ST ARTHUR HOMES	11,274,394.29	1.00	9,115,266.00	0.18%
PANTHEON SENIOR DEBT SECONDARIES II	18,185,235.62	0.60	13,229,341.33	0.26%
TOTAL OTHER DEBT			**117,035,222.10**	**2.29%**
<u>CASH</u>				
	46,569.56	1.00	72,534.58	0.00%
	4,904.58	1.00	5,727.45	0.00%
	466,000.00	1.00	707,000.00	0.01%
CUSTODIAN CASH			**785,262.03**	**0.02%**
INVESTED CASH	189,975,829.66	1.00	**189,975,829.66**	**3.72%**
TOTAL CASH			**190,761,091.69**	**3.74%**
TOTAL FUND VALUE - 30th September 2023			**5,100,270,319.97**	**100%**

Market Value timing differences included in valuation above	Market Value
Overseas Equities	
BORDER TO COAST PE OVERSEAS DEV MKTS EQTY A	-5,150,004.45
BORDER TO COAST EMERGING MARKET HYBRID FUND	-24,002,112.49
	-29,152,116.94
Private Equity	
BORDER TO COAST PRIVATE EQUITY SERIES 1A	5,162,745.04
	5,162,745.04
Direct Property	
TEESSIDE PENSION FUND - DIRECT PROPERTY	25,556,696.96
	25,556,696.96
Infrastructure	
BORDER TO COAST INFRASTRUCTURE SERIES 1A	3,526,884.68
BORDER TO COAST INFRASTRUCTURE SERIES 1C	3,270,327.16
	6,797,211.84
Total	**8,364,536.90**

Asset Allocation Summary	**Actual**	
UK Equities	603,333,860.88	11.83%
Overseas Equities	2,454,489,447.16	48.12%
Private Equity	496,322,931.06	9.73%
Other Alternatives	170,731,157.06	3.35%
Property	550,600,840.76	10.80%
Infrastructure	464,869,817.29	9.11%
Other Debt	117,035,222.10	2.29%
Cash & Bonds	190,761,091.69	3.74%
Local Investments - Private Equity, Other Alternatives & Infrastructure	52,125,951.97	1.02%
	5,100,270,319.97	100.00%



TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 6

PENSION FUND COMMITTEE REPORT

13 DECEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

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')

1.2 To provide Members with details of proposed changes to:

- The method Border to Coast uses to apportion its costs between its investors (the Partner Funds).
- The benchmarks State Street use for their passive equity funds.

2. RECOMMENDATION

2.1 That Members note the report.

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 At 30 September 2023 the Fund had investments in the following three 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).
- The Border to Coast Emerging Markets Equity Fund, which has an active emerging markets equity portfolio aiming to produce long term returns at least 1.5% above the FTSE Emerging markets indices. Part of the Fund is managed externally (for Chinese

equities) by FountainCap and UBS, and part managed internally (for all emerging markets equities excluding China) by the team at Border to Coast.

For all three sub-funds the return target is 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. To date, total commitments of £900 million have been made to these sub-funds (£500m to infrastructure and £400m to private equity) with around 34% of this commitment invested so far. In addition, a commitment to invest £80 million over a three year period to the Border to Coast Climate Opportunities Fund has been made. These investments are not reflected within the Border to Coast report (at Appendix A) but are referenced in the Border to Coast presentation later in the agenda.

4.2 The Border to Coast report shows the market value of the portfolio at 30 September 2023 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. Border to Coast's UK Listed Equity Fun's returns were 0.13% below benchmark over the last year, or 1.13% under its overachievement target, whereas the Overseas Developed Markets Equity Fund has achieved returns of 2.39% above benchmark over the last year, comfortably above its 1% overachievement target. Since inception, the UK fund has delivered performance of 0.83% a year above benchmark, slightly below its long-term target, and the overseas fund has delivered performance of 1.49% above benchmark, above its long-term target. The performance of the Emerging Markets Equity Fund has been below benchmark throughout much of the period of our Fund's investment – including over the quarter and year to 30 September 2023. Since inception the Fund is 1.50% a year behind benchmark, so 3.0% a year behind target.

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 at 30 September 2023. 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 are around five years as this represents a relatively 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. STATE STREET’S BENCHMARKS – EXCLUSION OF CERTAIN COMPANIES

5.1 As reported to the 9 December 2020 Pension Fund Committee meeting, State Street advised investors in a number of its passively-invested funds, including the four State Street equity funds the Fund invests in, that is 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):

Human Rights
- 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.

Labour
- 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.

Environment
- 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.

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

5.3 As was previously reported, for the four State Street funds the Fund is invested in the combined effect of applying this change to benchmarks excluded around 3.6% by value of the companies / securities across the regions.

5.4 The latest report shows performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufacture controversial weapons. As expected for a passive fund, performance closely matches the performance of the respective indices.

5.5 State Street has recently advised that it will be making further changes to its passive equity indices and will be excluding additional sectors. The Fund has been notified that from 18th December 2023 the benchmarks of the State Street Sub-Funds the Fund invests in will apply screens to exclude certain securities related to Tobacco and Thermal Coal. Excluded companies will be any involved in production of tobacco or tobacco products and companies that extract thermal coal or have thermal coal power generation and this activity represents 10% or more of revenues. This is in addition to the current screening for UN Global Compact Violations and Controversial Weapons which came into effect on 18th November 2020. Initial indications are across the four State Street Sub-Funds these changes will cover around 0.36% of the current assets (tobacco) and 0.88% of the current assets (thermal coal) that the Fund invests via State Street.

6. BORDER TO COAST – QUARTERLY CARBON AND ESG REPORTING

6.1 Border to Coast has worked with its reporting providers to develop reporting which covers the Environmental Social and Governance (ESG) issues and impact of the investments it manages, together with an assessment of the carbon exposure of these investments. This is easier with some asset classes than others, and Border to Coast has initially focussed on reporting on listed equities as this is the asset class where most information is available and this type of reporting is more advanced.

6.2 Appendix C contains the latest available ESG and carbon exposure in relation to the three Border to Coast listed equity sub-funds the Fund invests in: UK Listed Equity, Overseas Developed Markets Equity and Emerging Markets Equity. Amongst other information, the reports include information on the highest and lowest ESG-rated companies within those Border to Coast sub-funds, together with an analysis of the carbon exposure of the sub-funds on a number of metrics. The sub-funds' ESG position and carbon exposure is also compared to benchmarks representing the 'average' rating across the investment universe of that particular benchmark.

6.3 A colleague from Border to Coast will be available at the meeting to answer any questions Members may have on the information shown in the Quarterly ESG Reports.

7. BORDER TO COAST – PROPOSED CHANGES TO COST SHARING APPROACH

7.1 When Border to Coast was established over 5 years ago its Partner Funds set out an approach to apportion the costs of setting up and running the different investment propositions (sub-funds) Border to Coast would provide. To ensure adequate funding for each of the new propositions, the initial cost-sharing approach included apportioning some ongoing management charges based on the assets Partner Funds had identified as likely to transfer into the pool. Whilst it was acknowledged that over time charging most costs on an 'assets under management' basis would be fairest, at the outset this would cause anomalies and may in some circumstances could make it more expensive for those Partner Funds that were committing a greater proportion of their assets to pooling.

7.2 As reported to the 27 September 2023 Pension Fund Committee, now that Border to Coast has reached a stage where majority of the sub-funds originally envisaged have now been created, it is an appropriate time to revisit the was costs are apportioned. Over the next few months Partner Funds (or their administering authorities) will be asked to agree to make some changes to the agreements that set up Border to Coast to allow cost apportionment from the coming year to be based primarily on an ‘assets under management’ basis. This will not change the costs that Border to Coast charges, it will just apportion them differently – in a way that more fairly represents how Partner Funds are invested.

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

TEL NO.: 01642 729040

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Appendix A

Teesside Pension Fund

Quarterly Investment Report - Q3 2023

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Executive Summary

Overall Value of Teesside Pension Fund

Value at start of the quarter	£2,547,066,475
Inflows	£0
Outflows	£(100,000,000)
Net Inflows / Outflows	£(100,000,000)
Realised / Unrealised gain or loss	£14,793,588
Value at end of the quarter	£2,461,860,063

Note
1) Source: Northern Trust & Border to Coast
2) Past performance is not an indication of future performance and the value of investments can fall as well as rise.
3) Inflows and outflows may include income paid out and/or reinvested.
4) Values do not always sum due to rounding.

Portfolio Analysis - Teesside Pension Fund
at 30 September 2023

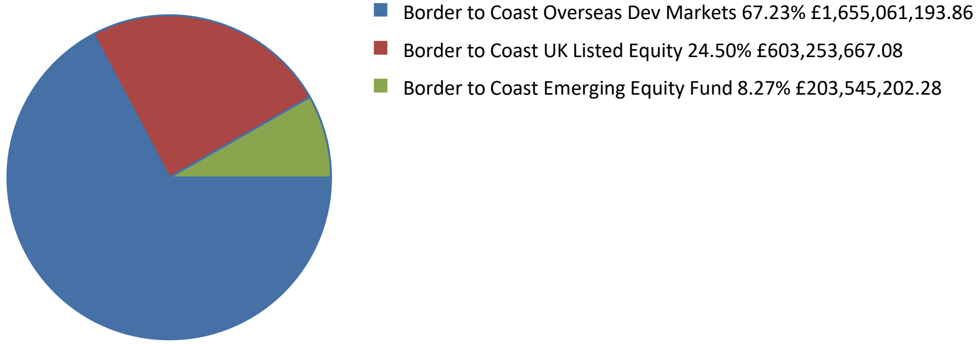
Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	603,253,667.08	24.50
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	1,655,061,193.86	67.23
Border to Coast Emerging Equity Fund	FTSE Emerging Markets (Net)[2]	203,545,202.28	8.27

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
Border to Coast Sterling Index-Linked Bond
Border to Coast Multi Asset Credit
Border to Coast Listed Alternatives
Border to Coast Emerging Markets Equity Alpha

Teesside Pension Fund - Fund Breakdown



Note
1) Source: Northern Trust
2) S&P Emerging Markets BMI (Net) between 22nd October 2018 to 9th April 2021. Benchmark equal to fund return between 10th April to 28th April 2021 (Performance holiday for fund restructure).

Portfolio Contribution - Teesside Pension Fund
at 30 September 2023

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	24.50	1.51	1.88	(0.37)	0.38
Border to Coast Overseas Dev Markets	67.23	0.10	(0.21)	0.31	0.06
Border to Coast Emerging Equity Fund	8.27	1.91	2.46	(0.55)	0.15
Total	**100.00**	**0.59**			

Note
1) Source: Northern Trust & Border to Coast
2) Performance shown is investor-specific, calculated using a time-weighted methodology which accounts for the impact of investor flows, whereby investments held for a longer period of time will have more of an impact than those held for a shorter time.
3) Past performance is not an indication of future performance and the value of investments can fall as well as rise.
4) Performance shown is net of charges incurred within the ACS, such as depository, audit and external manager fees. Performance is gross of any fees paid to Border to Coast which are set out separately within the papers supporting the Shareholder Approval of the Border to Coast Strategic Business Plan.

Valuation Summary
at 30 September 2023

Fund	Market value at start of the quarter GBP (mid)	Total weight (%)	Purchases (GBP)	Sales (GBP)	Realised / unrealised gain or loss	Market value at end of the quarter GBP (mid)	Total weight (%)
Border to Coast UK Listed Equity	643,898,131.47	25.28		50,000,000.00	9,355,535.61	603,253,667.08	24.50
Border to Coast Overseas Dev Markets	1,703,432,306.75	66.88		50,000,000.00	1,628,887.11	1,655,061,193.86	67.23
Border to Coast Emerging Markets Equity	199,736,036.92	7.84			3,809,165.36	203,545,202.28	8.27
Total	**2,547,066,475.14**	**100.00**		**100,000,000.00**	**14,793,588.08**	**2,461,860,063.22**	**100.00**

Note
1) Source: Northern Trust
2) Purchases and sales may include income paid out and/or reinvested.
3) Past performance is not an indication of future performance and the value of investments can fall as well as rise.
4) Values do not always sum due to rounding.

Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 30 September 2023

	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	4.14	3.33	0.82	1.53	1.88	(0.35)	13.71	13.84	(0.13)	11.99	11.81	0.18	4.45	3.66	0.78
Border to Coast Overseas Dev Markets	8.66	7.19	1.48	0.10	(0.21)	0.32	14.95	12.57	2.38	10.32	8.71	1.61	8.53	7.08	1.45
Border to Coast Emerging Markets Equity	2.48	4.16	(1.68)	1.90	2.46	(0.55)	0.23	1.17	(0.94)	0.62	1.55	(0.93)	--	--	--

Note
1) Source: Northern Trust
2) Performance shown is for the pooled fund, which may differ to the investor-specific performance.
3) Performance inception dates are shown in the appendix.
4) Performance for periods greater than one year are annualised.
5) Performance shown is net of charges incurred within the ACS, such as depository, audit and external manager fees. Performance is gross of any fees paid to Border to Coast which are set out separately within the papers supporting the Shareholder Approval of the Border to Coast Strategic Business Plan.
6) 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 2023

	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	4.15	3.33	0.83	1.53	1.88	(0.35)	13.72	13.84	(0.13)	12.00	11.81	0.19	4.45	3.66	0.79
Border to Coast Overseas Dev Markets	8.67	7.19	1.49	0.10	(0.21)	0.32	14.96	12.57	2.39	10.33	8.71	1.62	8.55	7.08	1.47
Border to Coast Emerging Markets Equity	2.66	4.16	(1.50)	2.00	2.46	(0.45)	0.53	1.17	(0.64)	0.88	1.55	(0.67)	--	--	--

Note
1) Source: Northern Trust
2) Performance shown is for the pooled fund, which may differ to the investor-specific performance.
3) Performance inception dates are shown in the appendix.
4) Performance for periods greater than one year are annualised.
5) Performance shown is gross of charges incurred within the ACS, such as depository, audit and external manager fees. Performance is gross of any fees paid to Border to Coast which are set out separately within the papers supporting the Shareholder Approval of the Border to Coast Strategic Business Plan.
6) 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 2023

UK Listed Equity Fund

The Fund generated a total return of 1.53% during the quarter, compared to the benchmark return of 1.88%, resulting in 0.35% of underperformance.

The Fund benefited from the following factors:

- Stock selection in Consumer Discretionary where the primary contributors were overweight holdings in Intercontinental Hotel Group and Marks & Spencer, whilst also not holding Entain.
- Overweight allocation to Energy principally from overweight positions in Shell and John Wood Group.
- Stock selection in Basic Materials where overweight positions in Elementis and Hill & Smith were key contributors.

This was offset by the following:

- Stock selection in Financials where overweight positions in St James Place and Impax Environmental Markets were the principal contributors.
- Stock selection in Industrials primarily from an underweight position in Rolls Royce and an overweight position in Experian.
- Stock selection in Telecommunications where an underweight position in Vodafone and an overweight position in Spirent Communications were the main contributors.

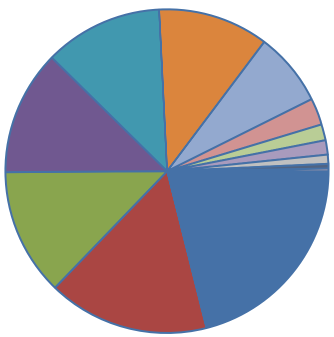
Note
1) Source: Border to Coast

Border To Coast UK Listed Equity Fund at 30 September 2023

Largest Relative Over/Underweight Sector Positions (%)

Common Stock Funds	+1.43
Consumer Staples	+1.41
Health Care	+0.90
Energy	+0.49
Industrials	+0.33
Financials	-2.21
Telecommunications	-1.01
Utilities	-0.80
Real Estate	-0.78
Technology	-0.72

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 UK smaller companies via specialist funds/collective vehicles. While UK small caps, in common with other geographies, have underperformed the wider market over much of the past 2 years, over longer periods they typically outperform, benefitting from stronger growth potential, with the funds delivering long-term outperformance.

Consumer Staples (o/w) – Broad mix of food and beverage, beauty, personal care, and home care product manufacturers and food retailers which collectively offer strong cash generation, robust balance sheets and seen as quality compounders through the economic cycle. Demonstrated resilient trading throughout the pandemic, and would be expected to perform strongly, relative to the wider equity market, during a global downturn.

Healthcare (o/w) – Global demographics (an ageing and growing global population), greater incidence of chronic health conditions, and increasing ability of emerging market populations to fund modern healthcare help drive above-GDP growth in global healthcare spending. Sector benefits from pricing power and barriers to entry such as patent protections and rigorous drug approval processes.

Utilities (u/w) – Government policy risk and potential for increased regulatory intervention, including allowable investment returns and increased capital expenditure requirements to meet rising environmental standards (such as limiting raw sewage overflows for water companies), elevated costs associated with an accelerated energy transition and rising cost of debt.

Financials (u/w) – Predominantly due to underweight investment trusts and HSBC (US-China relations remain strained), as well as increased near-term recessionary risks with potential for deteriorating bank loan books and rising credit risk in insurers bond portfolios. Partly offset by overweight positions in Wealth Managers and Insurers with Asian exposure as they are expected to benefit from the long-term increase in Asian and emerging market wealth alongside pent-up demand from the recent re-opening of the China/Hong Kong border.

Telecommunications (u/w) – Highly capital-intensive industry with competitor overbuild of fibre networks, hence uncertain returns from elevated investment. Competition issues act as barriers to further industry consolidation and recent pricing increases such as seen at BT appear unsustainable.

Border To Coast UK Listed Equity Fund Attribution at 30 September 2023

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Entain	0.00	0.00	0.26	(26.13)	0.10
DWF	0.20	64.94	0.01	66.00	0.09
Marks & Spencer	0.57	22.87	0.21	22.78	0.06
CRH	0.38	4.35	0.00	(0.12)	0.06
Vistry Group	0.35	38.06	0.14	38.08	0.05

Entain PLC (u/w) – Not held. Profit warning issued by the company triggered by a combination of unfavourable sporting results, additional investment in safer gaming and weaker trading in two of its markets (Italy and Australia).

DWF Group PLC (o/w) – An all-cash bid was received from private equity house Inflexion at a material premium (c50% premium) to the undisturbed share price, which was recommended by the board and subsequently approved by shareholders.

Marks & Spencer Group PLC (o/w) – Strong trading update during the quarter, raising profit guidance and confirming continued momentum and market share gains across both food and clothing & home divisions.

CRH PLC (o/w) – Continues to benefit from a strong US infrastructure investment programme (public spending and on-shoring of manufacturing); completed the switch of its primary listing to the US towards the end of the quarter to better reflect its geographical sales mix and close the valuation gap with US peers.

Vistry Group PLC (o/w) – Well received strategic review to focus purely on its Partnerships division (housing association and local authority sales) and a shift away from private housebuilding, alongside an updated capital return policy with a commitment to return £1bn to shareholders over the next 3 years.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast UK Listed Equity Fund Attribution Continued at 30 September 2023

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Rolls Royce	0.00	0.00	0.82	46.24	(0.24)
Impax Environmental Markets	0.85	(9.07)	0.05	(9.13)	(0.10)
St. James's Place	0.51	(22.10)	0.20	(22.06)	(0.08)
Centrica	0.00	0.00	0.38	24.61	(0.07)
Flutter Entertainment	1.37	(15.17)	1.04	(15.25)	(0.07)

Rolls Royce PLC (u/w) – Shares have reacted positively following the new CEO's arrival earlier this year, as the company addresses historic operational issues and wide-body/long haul engine flying hours continue to recover post Covid disruption.

Impax Environmental Markets PLC (o/w) – The funds bias towards small and mid-sized market cap stocks, which have underperformed larger cap stocks across wider equity markets, continued to weigh on the share price, compounded by the shares trading at a wider discount to the underlying net asset value than has been seen for several years.

St James Place PLC (o/w) – Company announced product fee reductions (15%) across its bond and pension investment products for long standing clients (over 10 years) in response to the introduction of the FCA's Consumer Duty regulation in July, with growing concerns that fee reductions may be extended more widely across its product range.

Centrica PLC (u/w) – Not held. Interim results beat expectations, driven by its retail division, with an increased dividend and extended share buyback announced. Their updated strategy, including increased investment in renewable energy generation which would be subject to minimum return thresholds was taken well.

Flutter Entertainment PLC (o/w) – Shares weaker following Entain's profit warning, with Flutter similarly reporting weaker trading in Australia. Whilst Flutter's market leading position in the US continues and the company reiterated nearing breakeven in the US, some concerns were raised over increasing competition such as from Penn's new strategic partnership with ESPN.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast UK Listed Equity Fund at 30 September 2023

Largest Relative Over/Underweight Stock Positions (%)

Impax Environmental Markets	+0.81
Schroder UK Smaller Companies Fund	+0.75
Liontrust UK Smaller Companies	+0.67
Shell	+0.65
Herald Investment Trust	+0.50
3I Group plc	-0.87
Rolls Royce	-0.82
Vodafone	-0.74
Informa	-0.46
Aviva	-0.46

Note
1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Impax Environmental Markets PLC – Leading ESG-focused fund that has delivered strong outperformance over the long-term, specialising in alternative energy, energy efficiency, water treatment, sustainable food, clean transport, smart environment, pollution control, and waste technology.

Schroder Institutional UK Smaller Companies Fund – Specialist UK smaller companies fund with a strong long-term track record. Schroders incorporate proprietary ESG scoring systems in their investment process and undertake direct ESG engagement.

Liontrust UK Smaller Companies Fund – Specialist UK small-cap fund with an investment style focussed on intellectual property, strong distribution channels, and durable competitive advantage, factors considered relevant to the stronger long-term growth profile of smaller companies. Strong emphasis on sustainable investment and extensive ESG engagement and reporting.

Shell PLC – Energy prices have started to recover again as supply/demand remains finely balanced, with key OPEC+ oil producers increasingly willing to support prices through production restrictions. Shell has been able to materially reduce its debt while also supporting a commitment to invest in energy transition.

Herald Investment Trust PLC – Specialist investment trust focussed on smaller quoted companies in telecommunications, multimedia and technology, with a global investment mandate. Long track record of outperformance with the experienced investment team.

Bottom 5 Holdings Relative to Benchmark:

3i Group PLC – Global private equity investor with a highly concentrated investment portfolio; approximately 60% of the current net asset value is invested in a single asset, Action, a European discount retailer.

Rolls-Royce Holdings PLC – Exited the holding towards the end of last year ahead of the change of CEO, on uncertainty over the recovery profile of long-haul air travel post-Covid lockdown relative to that of short-haul, and the associated demand for wide-bodied engines and engine flying hours.

Vodafone Group PLC – Recently exited holding on weakening competitive position in key markets such as Germany, exacerbated by a questionable roaming agreement between Vodafone and 1&1 which appears to undermine industry profitability recovery in Germany and lack of progress with strategic consolidation in UK, Spain and Italy.

Informa PLC – Exited holding in early 2022 on concerns over the longer-term prospects for a recovery in the global in-person events business following the Covid pandemic disruption.

Aviva PLC – Recently exited position to consolidate holdings within the insurance sector where growth prospects appear stronger such as Admiral, Prudential and Legal & General.

Major transactions during the Quarter

Purchases:

Segro PLC (10.7m) – New holding. Quality name within the logistics sector where the rate cycle has weighed heavily on the shares, providing an attractive entry point and as the rate cycle appears to near its peak.

Sales:

CRH PLC (£37.5m) – reduced position as the company switched its primary listing to the US. A broadly unchanged relative weighting has been retained to continue exposure to an attractive US construction market (increased infrastructure spending and onshoring of manufacturing facilities).

Border To Coast Overseas Developed Markets Equity Fund - Overview at 30 September 2023

Overseas Developed Markets Fund

The Fund generated a total return of 0.10% during the quarter compared to the composite benchmark return of -0.21% resulting in 0.32% of outperformance.

Following a strong start to the year the fund paused for breath in the third quarter but still managed to generate a small positive return. Year to date the fund is now up 8.33% and has outperformed its respective index by 1.58%. It should come as no surprise that after a phenomenal start to the year, the fund struggled to outperform in Japan, dropping -0.25% relative over the quarter. That should however be put in context as our investments in Japan have year to date returned 13.25% and outperformed their domestic index by 4.00%

The key contributor over the quarter to relative performance was the fund's European exposure which, despite dropping -1.20% still outperformed its domestic market by 0.80%, driven by the long standing investment in Novo Nordisk which contributed 0.66% alone. Both the US and the Developed Asia ex Japan also contributed positively to returns, outperforming 0.19% and 0.16% respectively.

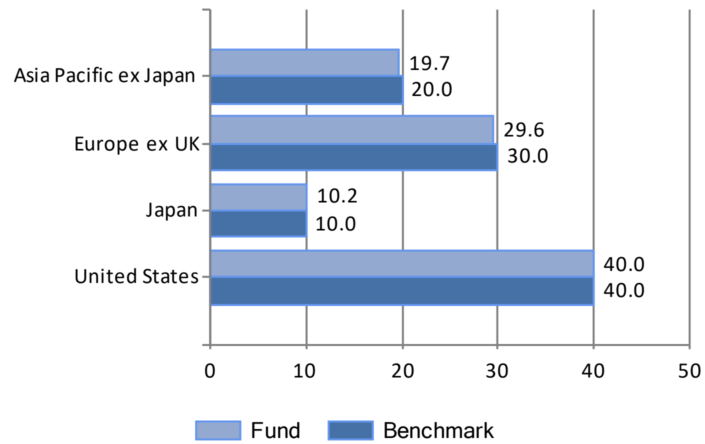
On a sector basis it should come as no surprise considering our position in Novo Nordisk that the Health Care sector was the most material contributor to returns. This was not due to Novo alone but also to the fund's overweight in Eli Lilly, both of which gained almost 20% over the month. The biggest detractor from performance was Industrials which despite an underweight to what was a poorly performing sector, still underperformed. Investments in companies such as Siemens, RTX and Daikin industries all struggled on concerns over a combination of slowing growth and company specific issues.

Our process remains focused on long-term fundamentals with a bias towards quality companies with strong balance sheets, and earnings and income visibility. Following the strong performance of equity markets year to date, combined with the recent volatility in the fixed income markets and concerns over future rate trajectories and their impact on global growth, we remain confident that our process is well positioned to both deliver excess relative returns and protect capital to the best of our abilities.

Note
1) Source: Border to Coast

Border To Coast Overseas Developed Markets Equity Fund
at 30 September 2023

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.

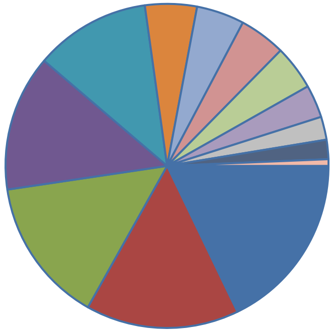
(*) The Benchmark is a composite of the following indices:
•40% S&P 500
•30% FTSE Developed Europe ex UK
•20% FTSE Developed Asia Pacific ex Japan
•10% FTSE Japan

	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	**8.66**	**7.19**	**1.48**	**0.10**	**(0.21)**	**0.32**	**14.95**	**12.57**	**2.38**	**10.32**	**8.71**	**1.61**
United States	12.40	11.14	1.25	0.82	0.64	0.19	12.21	10.68	1.53	12.76	11.76	1.00
Japan	5.91	3.70	2.21	2.67	2.92	(0.25)	20.05	14.51	5.54	7.35	4.71	2.64
Europe ex UK	6.95	5.36	1.59	(1.20)	(2.00)	0.80	22.05	18.99	3.06	10.38	7.58	2.80
Asia Pacific ex Japan	4.50	3.12	1.38	(0.64)	(0.80)	0.16	6.32	5.11	1.22	5.59	5.29	0.31

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 2023

Sector Portfolio Breakdown



- Technology 17.8% (17.4%)
- Financials 15.3% (15.9%)
- Industrials 14.5% (14.7%)
- Consumer Discretionary 13.6% (13.8%)
- Health Care 11.6% (12.2%)
- Consumer Staples 5.2% (6.2%)
- Basic Materials 4.8% (5.2%)
- Energy 4.6% (4.1%)
- Telecommunications 4.4% (4.6%)
- Common Funds 3.3% (0.0%)
- Utilities 2.3% (3.0%)
- Real Estate 1.9% (3.0%)
- Cash 0.7% (0.0%)

Overseas Developed Markets Fund

Sector Weights:

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

Energy (o/w) – supply dislocations and disruptions likely to support higher prices in the medium term, generating strong cashflows with which to address the challenges of the energy transition and offer attractive returns for shareholders.

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.

Utilities (u/w) – high leverage leaves themvulnerable to concerns over the rising and potentially sustained higher cost of debt.

Consumer Staples (u/w) – high valuations and vulnerability to margin compression due to higher input costs and weaker end demand make the sector less attractive even with the uncertainty surrounding the economy.

Real Estate (u/w) – high leverage leaves the sector exposed in a rising interest rate environment; concerns around impact of home/flexible working on the longer-term demand for office space.

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

Border To Coast Overseas Developed Markets Equity Fund Attribution at 30 September 2023

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Alphabet A	2.06	13.83	0.86	13.87	0.15
Novo Nordisk[2]	0.00	23.93	0.00	24.36	0.14
TotalEnergies	1.11	21.31	0.60	20.92	0.09
ConocoPhillips	0.55	21.54	0.16	21.22	0.07
Eli Lilly	0.87	19.79	0.48	19.47	0.07

Alphabet Inc Class A (o/w) – the quarter witnessed ongoing investor confidence that the Google subsidiary can defend its dominant internet search position despite the rising use of generative AI augmented alternatives such as Chat-GPT.

Novo Nordisk (o/w) – The Danish pharmaceutical company performed well on the back of the SELECT trial results. The results showed that the semaglutide reduced the risk of cardiovascular problems by around 20% and that will mean another revenue stream for Novo once they get approval.

TotalEnergies (o/w) – The French oil and gas company benefitted from higher oil prices as both OPEC and the wider group OPEC + announced they would both be extending their output cuts into the year-end.

ConocoPhillips (o/w) – The company's share price rose in sympathy with higher oil and stable natural gas prices. Commodity producers such as ConocoPhillips tend to be price takers. Their fortunes are tied to the price vagaries of the commodities they extract in the absence of material changes to their own production volumes. Demand for oil has been resilient in 2023 whilst the member states of OPEC+ have pursued a policy of reducing supply to support oil prices.

Eli Lilly & Co (o/w) – Growth continues to exceed pharmaceutical peers driven by success in novel treatments for diabetes. Eli Lily is also making progress in obtaining regulatory approval for the use of the same class of drugs for obesity treatments. Obesity frequently results in patients suffering from other diseases that are expensive to treat so Eli Lilly is in an enviable position to benefit from a burgeoning new market.

Note
1) Source: Northern Trust & Border to Coast
2) For technical reasons, due to a stock split, the weighting shown for Novo Nordisk is nil.

Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 30 September 2023

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Alphabet C	0.00	0.00	0.74	13.53	(0.09)
Exxon Mobil	0.00	0.00	0.52	14.87	(0.07)
LVMH	1.06	(16.06)	0.76	(16.09)	(0.06)
NextEra Energy	0.38	(18.99)	0.13	(19.19)	(0.06)
RTX	0.32	(22.89)	0.12	(23.10)	(0.06)

Alphabet Inc Class C (u/w) – The quarter witnessed ongoing investor confidence that the Google subsidiary can defend its dominant internet search positiondespite the rising use of generative AI augmented alternatives such as Chat-GPT. The underweight in the C share class is more than compensated for by the funds overweight in the A share class.

Exxon Mobil (u/w) – The company's share price rose in sympathy with higher oil prices.

LVMH (o/w) – The French luxury goods company is now starting to see weakness in some of their markets and the sell side analysts are now starting to extrapolate this weakness across the board as aspirational customers are now starting to stay delay luxury purchases. The US is seeing a slow down and the pick-up in China has not materialised as expected.

NextEra Energy (o/w) – Utilities were one of the weakest performing sectors in the quarter and NextEra Energy was not immune. Higher yields are making bonds a more attractive alternative to utilities whilst the higher cost of debt raises questions about the ability of NextEra to deliver its ambitious renewable energy development plans.

RTX Corporation (o/w) – The company was forced to lower profit guidance as it compensates airline customers for having to ground their aircraft. RTX's Pratt & Whitney subsidiary is replacing defective parts from its latest generation of engines already in service.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund
at 30 September 2023

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+3.09
Alphabet A	+1.20
Novo Nordisk	+0.66
Visa Inc	+0.61
Samsung Electronics	+0.52
Tesla	-0.77
Alphabet C	-0.74
Exxon Mobil	-0.52
Mastercard	-0.37
AbbVie	-0.29

Top 5 Holdings Relative to Benchmark:

Vanguard Mid-Cap ETF – Provides exposure to smaller companies in the US index, although the portfolio has an underweight exposure to smaller companies overall.

Alphabet Inc Class A – The parent company of Google: zero weight in the C shares nets out to a moderate overweight position. Google enjoys strong and profitable internet advertising market positions whilst also benefitting from a fast-growing cloud computing infrastructure business.

Novo Nordisk – The Danish pharmaceutical company has a strong market position in type 2 diabetes, and they have also branched out into treatment of obesity. Their obesity treatment drug, Wegovy, is seeing demand far outstrip supply as they extend its offering to other countries.

Visa Inc Class A – Revenues are positively correlated with consumer price inflation and are being boosted by the ongoing recovery in lucrative overseas travel transactions. Ongoing spend conversion from cash to card and contactless payments are secular growth opportunities. The business is also being successful in selling additional value-added services such as fraud detection and spend analytics to both merchants and financial firms.

Samsung Electronics – Exposed to the structural growth in the memory chip market including high bandwidth applications. The group also has a diversified earnings stream, stronger balance vs. peers' and large shareholder return potential. The overweight in the ordinary shares is partly offset by not owning the preference shares.

Bottom 5 Holdings Relative to Benchmark:

Tesla Inc – We are concerned that the company may need to cut vehicle prices further to stimulate demand at a time of increasing competition. The high valuation of the shares seems dependent on Tesla successfully making a technological leap and generating material revenue streams from autonomous driving.

Alphabet Inc Class C – The large holding in the alternative A share class results in a moderate overweight exposure to Alphabet overall.

Exxon Mobil Corp – We prefer Chevron and ConocoPhillips who have demonstrated more consistent energy transition engagement.

Mastercard Inc Class A – We currently prefer Visa, the other global payment network company, due to its lower valuation.

AbbVie Inc – The pharmaceutical company's largest franchise, Humira, has lost important patent protection threatening earnings growth. The company may pursue expensive M&A in an attempt to reinvigorate revenues.

Note
1) Source: Northern Trust

Summary of Performance - Funds (Net of Fees) Border to Coast Emerging Markets Equity Fund at 30 September 2023

	Inception to Date			Quarter to Date			1 Year			Benchmark
Fund	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	
Border to Coast Emerging Markets Equity Fund	2.48	4.16	(1.68)	1.90	2.46	(0.55)	0.23	1.17	(0.94)	FTSE Emerging Markets (Net)[3]
Border to Coast	3.25	4.31	(1.06)	1.99	2.76	(0.77)	5.42	4.13	1.29	FTSE Emerging ex China (Net)
FountainCap	(18.34)	(17.44)	(0.90)	0.90	1.84	(0.94)	(10.30)	(4.39)	(5.90)	FTSE China (Net)
UBS	(18.88)	(17.44)	(1.44)	2.00	1.84	0.17	(7.47)	(4.39)	(3.08)	FTSE China (Net)

Manager/Strategy	Role in fund	Target	Actual
Border to Coast	Core strategy focused on Emerging Markets ex-China with a tilt towards quality companies.	65%	66%
FountainCap	China specialist with long term, high conviction strategy focused on three megatrends: Innovation Economy, Clean Energy, and Consumption Upgrade.	14%	12%
UBS	China specialist seeking to identify upcoming ‘industry leaders’ that will benefit from China’s structural growth and transition to a services-led economy.	21%	22%

Note

1) Source: Northern Trust & Border to Coast
2) Values do not always sum due to rounding and use of different benchmarks
3) S&P Emerging Markets BMI (Net) between 22nd October 2018 to 9th April 2021. Benchmark equal to fund return between 10th April to 28th April 2021 (Performance holiday for fund restructure).

Border to Coast Emerging Markets Equity Fund - Overview at 30 September 2023

Emerging Markets Equity Fund

Emerging Markets marginally outperformed Developed Markets during Q3 2023, however, several underlying markets fell in local currency terms with positive performance in GBP terms driven by a strengthening of EM currencies over the quarter (e.g., CNY, INR, MXN).

Chinese equities posted another negative quarter as sentiment fell to the lowest levels since October 2022, when the country was still under strict lockdown controls. Furthermore, the Chinese government has not implemented the scale of stimulus expected by the market, instead deciding to provide targeted, piecemeal measures. However, recent macro data releases and low valuations provide us some confidence that the worst may be behind us. Indian equities have continued to benefit from the outflows of China as the country's long term growth story is driving a continued rally. Elsewhere, Brazil has implemented rate cuts, emphasising the fact that EM countries are more advanced in their cycle and in a better position to support their underlying economies. Finally, manufacturing within Mexico has continued to benefit from the "friend-shoring" theme, as the US continues to move global supply chains closer to home.

The Fund had positive absolute performance of 1.9%, however it underperformed the benchmark by -0.6%. On a since inception to date basis, the Fund has also delivered positive absolute returns (+2.5%), but it remains behind benchmark (underperforming by -1.7% per annum).

The internally managed Emerging Markets ex. China portfolio underperformed its benchmark by -0.8%. The underperformance was driven by stock selection, particularly in the industrials sector where overweight holdings in SQM and Vamos Locacao De Caminhoes have been impacted by a sharp fall in lithium prices and a fall in leasing volumes, respectively. However, an overweight holding in Elite Materials, a key supplier and therefore beneficiary of Nvidia and its AI driven theme offset some of the underperformance.

In relation to the China managers, FountainCap underperformed its benchmark by -0.9% over the quarter. The main driver of the underperformance was the overweight position to Sungrow Power (renewables focused), as the industry has been under pressure given reports of the solar expansion hitting grid constraints. UBS marginally outperformed the benchmark by +0.2% over the quarter. This was driven by our largest key active position in Kweichow Moutai, as the company continues to benefit from the strategic decision to sell their premium products through direct channels.

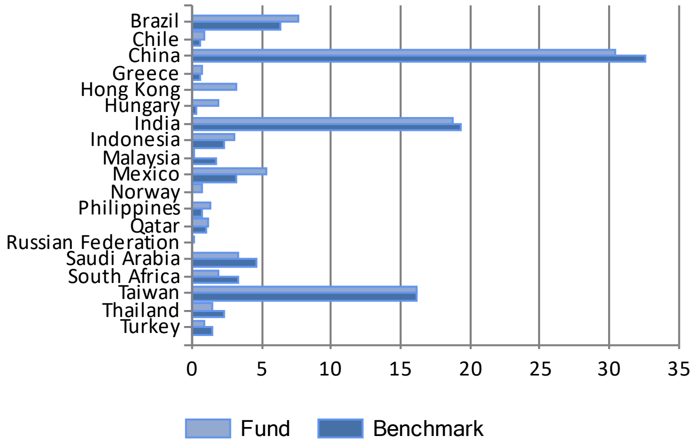
Looking forward, we expect there to continue to be dispersion in underlying markets. We are cognizant of the potential for a technical rally in China should there be more meaningful fiscal stimulus. However, as per our long-term philosophy, we put more weight on economies with policies in place that can drive sustainable growth over the long-term, as in the case of India. We also believe that we are partnered with well-aligned managers who can take advantage and deliver alpha from the opportunities driven by increased volatility and market inefficiencies.

Note

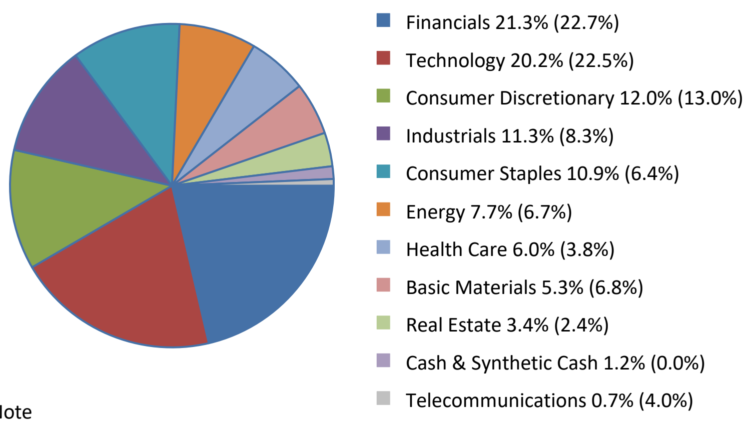
1) Source: Border to Coast

Border to Coast Emerging Markets Equity Fund
at 30 September 2023

Regional Breakdown



Sector Portfolio Breakdown



Note
1) Source: Northern Trust

Emerging Markets Equity Fund

The Border to Coast Emerging Markets Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the FTSE Emerging Markets benchmark by at least 1.5% 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:

Consumer Staples (o/w) – The rapidly growing Emerging Market middle class population is expected to lead to an increase in the consumption of staple goods over the long-term. The Fund is overweight a number of stocks (particular in China) that are well positioned to benefit from such a tailwind.

Industrials (o/w) – The Fund is marginally overweight the industrials sector, a diverse sector ranging from shipping and airports to glass manufacturing. The Fund's largest positions within this sector are manufacturers (or lessors) of heavy machinery and parts, which should benefit from continued urbanisation in emerging markets, and the manufacturer of electric cables with key relationships with global renewables businesses – i.e., a beneficiary of the green energy transition.

Health Care (o/w) – Demographic trends (aging EM populations), increasing prosperity and perhaps even medical tourism are expected to drive medical spending higher (both personal and governmental) in Emerging Markets. The Fund is exposed to a diverse set of innovative businesses in this sector.

Technology (u/w) – The Fund is exposed to a range of businesses that fall under the Technology sector, for example, semiconductors, electronic cabling and connectors, solar energy products and IT services. The underweight position is driven primarily by an underweight exposure to the Chinese online giants Tencent, Baidu and Pinduoduo.

Telecommunications (u/w) – The Fund is underweight to this relatively low growth, cap-ex intensive sector which can be buffeted by political risk (control and pricing implications). Where exposures are taken, they are to dominant market players with strong balance sheets in markets with solid growth prospects.

Utilities (u/w) – The Fund is underweighted to this highly regulated sector. Concerns over long-term sustainability of businesses and risk of regulatory interference warrants an underweight position.

Border to Coast Emerging Markets Equity Fund Attribution at 30 September 2023

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
Elite Material	1.15	79.75	0.00	0.00	0.56	Technology	Taiwan
PRIO	1.66	27.34	0.10	27.36	0.34	Energy	Brazil
Kweichow Moutai	3.13	10.59	0.35	10.62	0.22	Consumer Staples	China
Ayala Land	1.28	21.90	0.06	23.17	0.18	Real Estate	Philippines
Larsen & Toubro	1.31	26.71	0.40	26.78	0.15	Industrials	India

Positive Issue Level Impacts

Elite Materials (o/w) – The company produces halogen-free substrates for printed circuit boards, which are the building block for most electronic products. Elite is currently the sole supplier of CCL (copper clad laminate) to Nvidia's 800 GPU, and therefore a beneficiary of its surging AI-driven chip business. Revenues and gross margin improvements have driven the share price performance.

PRIO (o/w) – A Brazilian oil producer. Its share price rose over the period in response to reassuring monthly production growth figures alongside a rise in the oil price.

Kweichow Moutai (o/w) – A leading Chinese baijiu (liquor) producer and the Fund's largest active weight. The company announced strong results, with both net profits and revenues increasing, and beating expectations, driven by rising sales through direct channels. The company also announced partnerships aimed at introducing its product into the mass market; one a Moutai flavoured coffee with Luckin Coffee, and also a liquor filled chocolate with Mars owned Dove.

Ayala Land (o/w) – A property developer in the Philippines. The share price rose on improving operational figures from its residential development business, which is enjoying a cyclical recovery.

Larsen & Toubro (o/w) – L&T manufactures engineering equipment and undertakes large scale engineering projects, predominantly in India. The share price rose on solid earnings results, further project wins, and the announcement of a small share buyback.

Note
1) Source: Northern Trust & Border to Coast
2) Past performance is not an indication of future performance and the value of investments can fall as well as rise

Border to Coast Emerging Markets Equity Fund Attribution at 30 September 2023

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
PDD Holdings	0.00	0.00	0.96	47.75	(0.22)	Technology	China
Sungrow Power	0.67	(20.18)	0.02	(20.18)	(0.18)	Energy	China
Vamos	0.65	(18.73)	0.01	(19.17)	(0.16)	Industrials	Brazil
SQM	0.89	(14.77)	0.13	(14.81)	(0.15)	Basic Materials	Chile
Universal Vision Biotechnology	0.78	(13.95)	0.00	0.00	(0.15)	Health Care	Taiwan

Negative Issue Level Impacts

Universal Vision (o/w) - An off-benchmark provider of laser eye surgery equipment and associated services has sold off sympathetically with broader China demand weakness with its valuation compressing through the quarter. Has in recent years provided relative defensiveness against broader benchmark weakness.

SQM (o/w) – SQM is a Chilean lithium and fertiliser manufacturer. The stock price declined given negative sentiment relating to a near 50% fall in the lithium price during the quarter. Lithium is now at close to $20,000/tonne, which is a level on the cost curve that more material quantities of production begin to be curtailed.

Vamos (o/w) – The company provides commercial vehicle rental services. It offers leasing of trucks, machinery, and equipment, serving customers in Brazil. The share price declined on slower than expected truck leasing volume (their core business), which is a result of weaker economic conditions, high interest rates, and recent hikes in average selling prices with the introduction of new engines.

Sungrow Power (o/w) – The company operates within the Renewable Energy sector in China, developing, producing, and servicing solar inverters and wind power converters. Solar stocks have been under pressure in China driven by reports of the solar expansion hitting grid constraints, and also downside pressures from the oversupply of solar panels.

PDD Holdings (u/w) – A multinational commerce group that owns and operates a portfolio of businesses focused on the digital economy. PDD reported a significant Q2 earnings beat, driven mostly from online ad revenue increasing. However, the business was subject to a negative report from Grizzly Research. An initial share price decline following the report has not been sustained and not enough to offset the quarterly gains.

Note
1) Source: Northern Trust & Border to Coast
2) Past performance is not an indication of future performance and the value of investments can fall as well as rise

Border to Coast Emerging Markets Equity Fund at 30 September 2023

Largest Relative Over/Underweight Stock Positions (%)

Kweichow Moutai	+2.78
Netease	+2.03
Gedeon Richter	+1.80
ITC	+1.79
PRIO	+1.56
Alibaba	-1.44
Infosys	-0.98
PDD Holdings	-0.96
Tencent	-0.86
China Construction Bank	-0.85

Note
1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Kweichow Moutai – A leading Chinese baijiu (liquor) producer with strong brand presence and scale. The business is well positioned to benefit from the consumption upgrade story in mainland China.

NetEase – Is a Chinese internet technology company that primarily develops and operates online PC and mobile games and content. Despite some headwinds in its domestic market, growing success on the international stage (in particular Japan) along with a strong pipeline of games, including a new metaverse gaming platform, should bode well for sales and profit growth.

Gedeon Richter – A diversified and growing pharmaceutical business that trades materially cheaper than peers. Richter boasts a growing women's health platform and is a leader in proprietary CNS (central nervous system) drug discovery. The firm is well positioned to benefit from increased global medical spending with mature cash generative drugs and an innovative pipeline.

ITC – ITC's portfolio of consumer staples brands and powerful distribution capability provides broad exposure to the consumer in India. The cigarette business is benefiting from more rational excise duties, thus taking back market share from the informal market, and the foods business has a positive outlook given operational leverage opportunities.

PRIO – PRIO is a Brazilian oil producer with an impressive track record of acquiring aged offshore oil fields and then driving productivity and cost efficiencies, while improving reserve replacement. These operational improvements reduce the carbon emissions footprint of production and drive cash generation. The business is appealing in the context of Brazil as it exports its oil internationally.

Bottom 5 Holdings Relative to Benchmark:

China Construction Bank – Is one of the "big four" banks in China, offering services to personal and corporate customers. The Fund maintains a structural underweight to Chinese State-Owned Enterprises, many of which are within the banking and finance sector.

Tencent – A Chinese technology conglomerate with numerous business units. The stock is a material proportion of the benchmark, and whilst the Fund does hold some exposure, there are deemed to be better opportunities elsewhere.

PDD Holdings – A Chinese technology company, owning a number of e-commerce businesses, such as TEMU. The Fund does not hold any exposure, again deeming there are better opportunities elsewhere.

Infosys – An Indian IT consulting and software services business. The company was a previous holding in the EM-ex China portfolio, however the position was exited during Q3 following poor guidance, and positioning has been rotated into competitor firms which offer less discretionary services, such as moving digital infrastructure to the cloud.

Alibaba – Chinese multinational technology company, known for e-commerce and online payment platforms. The stock is a material proportion of the benchmark, and whilst the Fund does hold some exposure, there are deemed to be better opportunities elsewhere.

Major Transactions During the Quarter

Purchases:

Akbank (New Position, £9.7m) – A position in Akbank T.A.S. (a Turkish bank) was initiated in Q3 as the company has been adjudged to be a quality banking franchise in Turkey, and following Erdogan's re-election there has been a return to monetary orthodoxy.

Aegis Logistics (New Position, £8.2m) – The Fund also opened a position in Aegis Logistics, a major provider of port infrastructure for import/ export of LPG and industrial liquids. Aegis could benefit from the steadily rising volumes of imported LPG and chemicals into India, which are consumed by both households and industry.

APPENDICES

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2023

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Alphabet A	2.06	0.86	0.15
ConocoPhillips	0.55	0.16	0.07
Eli Lilly	0.87	0.48	0.07
Chevron	0.76	0.33	0.05
Activision Blizzard	0.36	0.07	0.05

Alphabet Inc Class A (o/w) – The quarter witnessed ongoing investor confidence that the Google subsidiary can defend its dominant internet search position despite the rising use of generative AI augmented alternatives such as Chat-GPT.

ConocoPhillips (o/w) – The company's share price rose in sympathy with higher oil and stable natural gas prices. Commodity producers such as ConocoPhillips tend to be price takers. Their fortunes are tied to the price vagaries of the commodities they extract in the absence of material changes to their own production volumes. Demand for oil has been resilient in 2023 whilst the member states of OPEC+ have pursued a policy of reducing supply to support oil prices.

Eli Lilly & Co (o/w) – Growth continues to exceed pharmaceutical peers driven by success in novel treatments for diabetes. Eli Lily is also making progress in obtaining regulatory approval for the use of the same class of drugs for obesity treatments. Obesity frequently results in patients suffering from other diseases that are expensive to treat so Eli Lilly is in an enviable position to benefit from a burgeoning new market.

Chevron (o/w) – The company's share price rose in sympathy with higher oil prices.

Activision Blizzard Inc (o/w) – The video game publisher agreed to be acquired by Microsoft in 2022 but the takeover has been subject to extensive global competition investigations. The share price had languished at a discount to the agreed takeover price but with final regulatory approvals now pending that discount narrowed leading to stock price outperformance.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2023

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Alphabet C	0.00	0.74	(0.09)
Exxon Mobil	0.00	0.52	(0.07)
NextEra Energy	0.38	0.13	(0.06)
RTX	0.32	0.12	(0.06)
Zimmer Biomet	0.23	0.03	(0.05)

Alphabet Inc Class C (u/w) – The quarter witnessed ongoing investor confidence that the Google subsidiary can defend its dominant internet search position despite the rising use of generative AI augmented alternatives such as Chat-GPT. The underweight in the C share class is more than compensated for by the funds overweight in the A share class.

Exxon Mobil (u/w) – The company's share price rose in sympathy with higher oil prices.

NextEra Energy (o/w) – Utilities were one of the weakest performing sectors in the quarter and NextEra Energy was not immune. Higher yields are making bonds a more attractive alternative to utilities whilst the higher cost of debt raises questions about the ability of NextEra to deliver its ambitious renewable energy development plans.

RTX Corporation (o/w) – The company was forced to lower profit guidance as it compensates airline customers for having to ground their aircraft. RTX's Pratt & Whitney subsidiary is replacing defective parts from its latest generation of engines already in service.

Zimmer Biomet Holdings (o/w) – Investor sentiment weakened with concerns that the greater availability of anti-obesity treatments might lower the trajectory of hip and knee reconstructive demand. Sentiment was further soured with the news that the CEO had resigned to join another company.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - United States
at 30 September 2023

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+3.09
Alphabet A	+1.20
Visa Inc	+0.61
NVIDIA Corporation	+0.51
Microsoft	+0.44
Tesla	-0.77
Alphabet C	-0.74
Exxon Mobil	-0.52
Mastercard	-0.37
AbbVie	-0.29

Note

1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Vanguard Mid-Cap ETF – Provides exposure to smaller companies in the US index, although the portfolio has an underweight exposure to smaller companies overall.

Alphabet Inc Class A – The parent company of Google. Google enjoys strong and profitable internet advertising market positions whilst also benefitting from a fast-growing cloud computing infrastructure business.

Visa Inc Class A – Revenues are positively correlated with consumer price inflation and ongoing spend conversion from cash to card and contactless payments are secular growth opportunities.

NVIDIA Corp – The company has leadership in advanced data centre chips that customers use for the most intense compute workloads including generative AI.

Microsoft Corp – The company is benefitting from the secular growth of its Azure cloud hosting business as well as resilient demand for its ubiquitous suite of productivity software led by Microsoft Office. The company looks well placed to increase its share of wallet from enterprise customers by upselling them AI augmented versions of its software.

Bottom 5 Holdings Relative to Benchmark:

Tesla Inc – We are concerned that the company may need to cut vehicle prices further to stimulate demand at a time of increasing competition.

Alphabet Inc Class C – The large holding in the alternative A share class results in a moderate overweight exposure to Alphabet overall.

Exxon Mobil Corp – We prefer Chevron and ConocoPhillips who have demonstrated more consistent energy transition engagement.

Mastercard Inc Class A – We currently prefer Visa, the other global payment network company, due to its lower valuation.

AbbVie Inc – The pharmaceutical company's largest franchise, Humira, has lost important patent protection threatening earnings growth. The company may pursue expensive M&A in an attempt to reinvigorate revenues.

Major transactions during the Quarter

Purchases:

None

Sales:

CVS Health (£16.2m) – Exited holding. In recent years the company has embarked on a series of large acquisitions and execution of this strategy has been mixed.

Metlife (£11.1m) – Exited holding. Metlife is a leading US life insurer. The sale was driven by lingering concerns over its exposure to commercial real estate and greater confidence in reinsurer Berkshire Hathaway.

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2023

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Novo Nordisk[2]	0.00	0.00	0.14
TotalEnergies	1.11	0.60	0.09
UBS	0.59	0.29	0.06
Eni	0.36	0.14	0.03
Munich Re	0.63	0.22	0.03

Novo Nordisk (o/w) – The Danish pharmaceutical company performed well on the back of the SELECT trial results. The results showed that the semaglutide reduced the risk of cardiovascular problems by around 20% and that will mean another revenue stream for Novo once they get approval.

TotalEnergies (o/w) – The French oil and gas company benefitted from higher oil prices as both OPEC and the wider group OPEC + announced they would both be extending their output cuts into the year end.

UBS (o/w) – The Swiss bank saw inflows coming into both UBS and Credit Suisse and announced record quarterly profits on the back of the discounted acquisition. The bank is now also looking for synergies as they look to reduce the number of employees as they combine both UBS and Credit Suisse together.

ENI (o/w) – The Italian oil and gas company also benefitted from higher oil prices due to output cuts extending to the year end.

Munich Re (o/w) – The German reinsurance firm's reported underwriting strength in the second quarter which offset the weaker investment business. The sell side analysts believe that the conditions behind the shift in 2023, which brought about margin expansion, better terms of trade, improved expected returns, will persist for longer, helping sustain returns to exceed the cost of capital going forward into 2024.

Note
1) Source: Northern Trust & Border to Coast
2) For technical reasons, due to a stock split, the weighting shown for Novo Nordisk is nil.

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2023

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
LVMH	1.06	0.76	(0.06)
ASML	1.25	0.95	(0.05)
Siemens	0.79	0.43	(0.04)
Richemont	0.41	0.25	(0.04)
Infineon Technologies	0.35	0.18	(0.03)

LVMH (o/w) – The French luxury goods company is now starting to see weakness in some of their markets and the sell side analysts are now starting to extrapolate this weakness across the board as aspirational customers are now starting to stay delay luxury purchases. The US is seeing a slow down and the pick-up in China has not materialised as expected.

ASML (o/w) – Makes lithography equipment has seen their shares experiencing a decline, because of underwhelming third-quarter earnings and 2023 guidance provided by Taiwan Semiconductor one of their major customers. TSMC told major suppliers to delay delivering high-end chipmaking equipment as demand has fallen in the semiconductor space.

Siemens (o/w) – Earnings fell short of analyst estimates as the company saw demand for its digital industries unit drop in China while taking a hit on its stake in the troubled wind-turbine maker Siemens Gamesa. Siemens cut their profit-margin outlook for its digital industries after orders declined by more than a third, mainly dragged down by a drop in demand in China for its factory-automation devices. Outside of its industrial business, Siemens reported a €647 million loss from its 25.1% stake in Siemens Energy.

Richemont (o/w) – The Swiss owner of Cartier and watchmakers including IWC indicated inflation is starting to hit luxury demand in Europe. Persistent higher prices are prompting even well-heeled European consumers to scale back buying. The company had warned in July that demand in the US and China, two of the biggest markets for luxury goods, was starting to weaken.

Infineon Technologies (o/w) – The German chipmaker guided the market to lower margins. Its fourth-quarter margin outlook missed estimates and the German chipmaker said that costs, including new investments and expenses for equipment sitting idle, had increased.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2023

Largest Relative Over/Underweight Stock Positions (%)

Novo Nordisk	+0.66
TotalEnergies	+0.51
Munich Re	+0.41
AXA	+0.40
Schneider Electric	+0.37
Zurich Insurance Group	-0.28
Hermes	-0.25
Banco Santander	-0.25
Mercedes-Benz	-0.24
BBVA	-0.20

Top 5 Holdings Relative to Benchmark:

Novo Nordisk – The Danish pharmaceutical company has a strong market position in type 2 diabetes, and they have also branched out into treatment of obesity.

TotalEnergies – The French petrolem company is now the second largest player in liquefied natural gas ("LNG"). The management team is looking to diversify further into green energy and renewables.

Munich Re – One of the largest reinsurers in the world with a strong presence in over 160 countries. We highly rate their skilled underwriting team and prudent reserving policy.

AXA – The French insurer is on an attractive valuation and is trading at a significant discount to peers such as Allianz and Zurich. The management has tilted the company towards property and casualty insurance.

Schneider Electric – The well-run French electrical power equipment company is well positioned globally in the structural growth markets of Energy Management and Industrial Automation.

Bottom 5 Holdings Relative to Benchmark:

Zurich Insurance Group – The Swiss reinsurance company is on a high valuation relative to their peers and what could be seen to be over-ambitious profitability targets.

Hermes – The French luxury brand company trades on a higher valuation and has a less diversified portfolio than some of their peers. The portfolio has an o/w position in LVMH.

Banco Santander – The Spanish bank is one of the weaker operators in the banking sector. The bank has one of the weakest balance sheets in the sector and its strategy to move into investment banking is high-risk.

Mercedes-Benz Group – The German luxury auto manufacturer trades on a high valuation at a time when we believe there is a risk of profitability peaking.

Banco Bilbao Vizcaya Argentaria – The Spanish bank is of a lower quality compared to the banks that are held in the portfolio.

Major transactions during the Quarter

Purchases:

EssilorLuxottica (£5.9m) – New holding. The company is a quality name in the eyecare sector with the company offering a service across the value chain.

Knorr Bremse (£1.1m) – New holding. With exposure to the rail and trucking industry this helps the portfolio to diversify into other areas of industrial transportation sector.

Sales:

Schroders European Smaller Companies (£8.2m) – Looking to reduce the portfolio's allocation to collectives and use the proceeds to invest in some of the other names in the portfolio.

Note
1) Source: Northern Trust

Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2023

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Mitsubishi UFJ Financial	0.46	0.25	0.04
DISCO Corporation	0.25	0.04	0.04
Sumitomo Mitsui Financial	0.37	0.16	0.04
INPEX	0.15	0.04	0.03
KEPCO	0.20	0.03	0.03

Mitsubishi UFJ Financial Group (o/w) – Japanese banks are benefitting from the tailwind of rising yields on 10yr Japanese government bonds following an adjustment in the Bank of Japan's yield curve control policy. MUFG in particular has significant potential to deploy capital more profitably as 10yr yields approach 1.0%.

Disco (o/w) – Semiconductor production equipment (SPE) manufacturers have enjoyed a robust rerating since the springtime as the market started looking toward a recovery in chip-maker capex. Disco has benefitted more than other related names due to the exposure of its back-end processing equipment to the large-scale buildout underway to enable artificial intelligence (AI).

Sumitomo Mitsui Financial Group (o/w) – SMFG is benefitting from the tailwind of rising JGB yields following the BoJ's policy adjustment during the quarter. SMFG has led the Japanese banking sector in expanding its non-lending operations, but progress here has been masked by the drag on earnings from ultra-low rates. As rates rise, the quality of SMFG's business model is becoming clearer to the market.

Inpex (o/w) – A rebound in oil prices during the quarter led to a rerating in Japan's premier upstream oil and gas exploration company.

Kansai Electric Power (o/w) – the West Japan utility has the highest share of nuclear generating capacity among Japan's major power providers. Hence the shares have rerated significantly during 2023 as Japanese authorities relax their post-Fukushima restrictions on nuclear power and begin recommissioning shuttered nuclear power facilities.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Japan
at 30 September 2023

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Daikin Industries	0.26	0.11	(0.04)
Renesas Electronics	0.22	0.05	(0.03)
KEYENCE	0.31	0.18	(0.02)
Honda Motor	0.00	0.14	(0.02)
Terumo	0.21	0.04	(0.02)

Daikin Industries (o/w) – In line with a common trend during the quarter among Japanese stocks, the shares reversed course after a strong rerating in the prior quarter. The long-term benefits of the company's dominant position in the air-conditioning market as well as its strengths in heat pumps are in our view very compelling, despite weak end-market demand in the short-term.

Renesas (o/w) – The share price corrected somewhat following an exceptionally strong rerating during the first half of the year. Management's comments at June quarter results meeting appear to have tempered the market's enthusiasm in the short term, despite a positive outlook for the company's longer-term position.

Keyence (o/w) – The stock gave back most of its gains from the previous quarter as the market reacted very negatively to an undershoot in quarterly results. The medium and long-term fundamentals remain intact, however.

Honda Motor (u/w) – We prefer Toyota's EV strategy and growth prospects, as well as Subaru. The fund's underweight in Honda leaves it vulnerable in the short-term, however, to a rerating in this quality value play, especially during a sector-wide rally as we saw during the quarter.

Terumo (o/w) – Strong performance in Q2 (Terumo was the fund's best-performing healthcare stock) and elevated valuations left the share price vulnerable to disappointment ahead of June quarter results that underwhelmed, missing consensus in the short-term but showing positive signs from a medium and long-term perspective. We continue to rate this high-quality healthcare equipment supplier highly.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2023

Largest Relative Over/Underweight Stock Positions (%)

Ballie Gifford Shin Nippon	+0.22
Sumitomo Mitsui Financial	+0.21
Mitsubishi UFJ Financial	+0.21
DISCO Corporation	+0.21
Tokyo Electron	+0.20
Honda Motor	-0.14
Mitsui & Co	-0.14
Daiichi Sankyo	-0.13
Mizuho Financial	-0.11
HOYA	-0.09

Note
1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Ballie Gifford Shin Nippon – The fund has long maintained its position in this blue-chip Japanese small cap fund as an efficient means of accessing alpha from the long tail of small cap stocks listed in Japan.

Sumitomo Mitsui Financial Group – We have been impressed by the Japanese megabank's more innovative business model that increasingly stresses non-lending businesses.

Mitsubishi UFJ Financial Group – We view favourably its market position as the leading bank in Japan as well as its quality investments in foreign assets.

Disco – We like this SPE manufacturer because of its dominant position in core product areas in back-end semiconductor production processes.

Tokyo Electron – As with Disco we are very positive on SPE manufacturers position supporting the buildout of the chip-making industry. Tokyo Electron dominates its core verticals in front-end processing.

Bottom 5 Holdings Relative to Benchmark:

Honda Motor – We prefer Toyota's EV strategy and growth prospects, as well as Subaru whose prospects from their collaboration with Toyota, their US sales resilience, and the possibility of Toyota increasing their stake all bode well for the company.

Mitsui & Co – we prefer Mitsubishi Corp. and Itochu Corporation, as these two trading houses have more diversified business portfolios with relatively lower weighting on resources/commodities.

Daiichi Sankyo – Despite recent derating following disappointing clinical trial results, the current share price continues to reflect an unrealistically optimistic outlook for prospects for the company's oncology drugs.

Mizuho Financial Group – While we maintain our overweight in financials, we prefer MUFG for the higher quality of its domestic franchise as well as its blue-chip overseas assets like Morgan Stanley.

Hoya – We exited this manufacturer of electro-optical products on competition concerns and expected continuing weakness of EUV mask blanks this year.

Major transactions during the Quarter

Purchases: No new purchases during the quarter.

Sales:
Nippon Shinyaku (£4.5m) – Exited holding of this pharmaceutical maker. The company's drug pipeline has disappointing as competitors appear to have developed more compelling products.

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2023

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
KB Financial Group	0.33	0.11	0.04
POSCO	0.30	0.22	0.03
NAVER	0.34	0.16	0.02
Samsung Fire & Marine Insurance	0.19	0.05	0.02
DBS Group	0.50	0.33	0.02

KB Financial Group (o/w) – Outperformed during the quarter on expectations of "higher for longer" interest rates supporting income and the scope for further shareholders returns due to their strong capital position, moderate provisioning and solid asset quality.

Posco Holdings (o/w) – Continued outperforming on support from expanding sales by new business initiatives including its battery materials subsidiary (59.7% owned) Posco Future M.

Naver (o/w) – Following a weak performance in the second quarter, Naver benefited from positive expectations of its AI applications and earnings growth supported by improving e-commerce service offerings and profitability.

Samsung Fire & Marine (o/w) – Benefited from an improvement in earnings from the adoption of IFRS17 accounting guidelines and as a result, the potential for higher shareholder returns in the form of capital distributions due to their high capital adequacy.

DBS Group (o/w) – In similar fashion to KB Financial Group in Korea and other large financial institutions in the regions, DBS benefitted from ongoing support from higher interest rates and improving capital returns to shareholders given its high capital ratio.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2023

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Samsung SDI	0.30	0.15	(0.04)
LG Electronics	0.22	0.06	(0.04)
LG Chemical	0.24	0.13	(0.04)
AIA Group	0.89	0.71	(0.04)
LG Innotek	0.13	0.02	(0.03)

Samsung SDI (o/w) – In line with other EV battery manufacturers the company was affected by concerns on slowing global EV demand, increased penetration of cheaper LFP batteries and sluggish IT/consumer electronics demand for smaller batteries and electronic materials.

LG Electronics (o/w) – Was undermined by inventory destocking and concerns on weak consumer sentiment in spite of rising revenues supported by product innovation in energy-efficient consumer electronics and a growing vehicle solutions business.

LG Chem (o/w) – Underperformed on concerns over a slowdown in earnings from its petrochemical, EV batteries and materials businesses on the back of sluggish demand.

AIA Group (o/w) – Whist on a clear earnings recovery trend, AIA underperformed on weak sentiment on Hong Kong listed stocks underpinned by wider concerns on China's economic growth and real estate markets.

LG Innotek (o/w) – Was affected by delays in iPhone 15 production with issues in other parts of Apple's supply chain, concerns on demand with worsening US / China relations and weak demand in the substrates market.

Note
1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2023

Largest Relative Over/Underweight Stock Positions (%)

Samsung Electronics	+0.52
SK Hynix	+0.26
KB Financial Group	+0.22
Techtronic Industries	+0.21
Hong Kong Exchanges & Clearing	+0.20
Samsung Electronics Prefs	-0.25
UOB	-0.19
QBE Insurance	-0.11
Kia	-0.11
LG Energy Solution	-0.10

Top 5 Holdings Relative to Benchmark:

Samsung Electronics – Exposed to the structural growth in the memory chip market including high bandwidth applications. The group also has a diversified earnings stream and large shareholder return potential.

SK Hynix – One of the leaders in semiconductor memory with high teens global market share in both NAND and DRAM. The company is a beneficiary of the structural increase in demand.

KB Financial Group – Largest financial group in Korea with sector-high return on equity, strong capital position, and increasing focus on improving shareholder returns.

Techtronic Industries – The group's technology leading focus on cordless power tools market should lead to improving margins and market share as global penetration continues.

Hong Kong Exchanges & Clearing – Largest listed exchange company in Asia Pacific enjoying a monopolistic market position in Hong Kong whilst at the forefront of connecting China to the financial world.

Bottom 5 Holdings Relative to Benchmark:

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

UOB – whilst Singaporean banks tend to be highly correlated, the portfolio has a preference for the other large banks in the country DBS and OCBC which have stronger capital positions and differentiated profiles.

QBE Insurance Group – largest Australian insurer by market cap with strong revenues from its North America and international segments. The fund has a preference for Insurance Australia Group.

Kia Corp – the portfolio has a preference for Hyundai Motor and Hyundai Mobis in the Korean autos sector.

LG Energy Solution – leading Korean EV battery maker. The portfolio holds its parent LG Chem which owns 82% of LG Energy Solutions, is valued at a large holding company discount.

Major transactions during the Quarter

Purchases:
LG Innotek (£9.9m) – Was added to the portfolio as trading at low valuations whilst likely to benefit from the launch of iPhone 15 and the structural growth in automotive and extended reality applications for its camera.

Sales:
LG H&H (-£4.1m) – Sold out on deterioration of its business position in China and lack of visibility on earnings recovery.

Note
1) Source: Northern Trust

Market Background
at 30 September 2023

Equity markets finally paused for a breath in the third quarter with a modest loss of just over 3% in US Dollar terms. This was however slightly cushioned in sterling terms as a 3% fall in currency meant global equities managed to break even in sterling terms, gaining just under 1%.

In our last quarterly market update we commented that we felt there was an ongoing tug of war between higher interest rates, recessionary fears and corporate resilience. The third quarter started to provide us with guidance as to how this might unfold.

Central banks have had one clear focus up until now. That has been to tame the inflation that spread throughout the global economy as a result of policies during the covid pandemic, the emergence and economic re-opening following the pandemic and then the squeeze on energy prices sparked by Russian invasion of Ukraine. In the past few quarters, there were many signs that the medicine being doled out by Central Bankers across the globe was having an effect. Both in the US, and throughout Europe, consumer price inflation dropped from its peak in the fourth quarter last year to much more manageable levels. Even in the UK where inflation proved stickier than in other markets, there has been a correction. There is no doubt that the 2% target for inflation that Central Bankers have set remains elusive, and they themselves have not laid claim to having completely tamed inflation. Despite that, the debate has now shifted with some notable implications for equity markets.

With the prior focus being on where rates will peak, we have now moved to a period characterised most clearly by the Bank of England Chief Economist Huw Pill's speech in South Africa where he recently portrayed the potential rate trajectory as a 'Table Mountain' profile rather than that of the 'Matterhorn'. In other words, a steadier path in interest rates with a long period of no change rather than a sharper rise followed by a swift descent. In essence a focus on the nuance around the future rate trajectory. Certainly, there are prominent individuals such as Neel Kashkari of the Minneapolis Federal Reserve that argue for a further rate hike in the US, but the essence of what the market is focused on now is how long rates will need to be kept at these levels to avoid the embedding of inflation expectations into the economy whilst still managing to navigate our way around a potential recession.

The risk of a recession still seems far from people's minds with a gentle slowing of economic growth, or soft landing, being the central assumption for the coming year. The International Monetary Fund (IMF), for example, in their most recent world economic outlook, yet again raised their GDP growth expectations for the current year and predicted no material slowdown in 2024. This and the markets expectation of a soft landing, stand in contrast to the signal we are seeing from the inversion of the yield curve (where short maturity interest rates exceed long maturity rates). If history is to be believed, this has occurred ahead of every recession since the 1970s. This disconnect between growth expectations and the yield curve is also replicated in equity market expectations. Consensus expectations for the US equity market (the S&P500) are for 10% earnings growth in 2024. This is following what is looking increasingly like a 3-5% contraction in earnings for 2023 on a similar level of underlying economic growth. If we delve deeper into where this expected resurgence in growth is coming from, it provides us with little additional comfort. Take the US retail sector for example, expectations are for earnings growth to reverse from an 8% contraction this year to over 20% growth next year. The US labour market may be in good health, but we can see the savings rate dropping as consumers dip into their pandemic handouts and already companies targeting the lower end consumer like Dollar General (now on its third profit warning of the year) are feeling the pressure.

The cognitive dissonance the market is experiencing driven by the conflict between growth and interest rate expectations was notable in the rotation we saw in equity markets over the quarter. This was less visible on a geographic basis where the differential in performance between the US, Europe, Asia and Emerging Markets was limited. On a sector basis however the difference in performance between the best and worst sectors was near 20%. The FTSE All World Energy sector gained 14% over the quarter. Oil companies such as Inpex in Japan, Hess and Conoco Phillips in the US, Total in Europe and Shell in the UK all gained over 20% as investors started to grapple with implications of the Saudi's output cut, the run down of the US strategic petroleum reserve, and resilient near-term demand. What was also of note in this shift in sentiment was the impact to the Technology sector. The technology sector has been one of the strongest performing sectors over the year as excitement following the

Note
1) Source: Border to Coast

Market Background
at 30 September 2023

launch of ChatGPT brought the potential long-term implications of Generative AI to the attention of investors. Last quarter we mentioned not only the strength of the rally in technology companies but also how concentrated it had become. This quarter was where we saw that lead ebb with the technology sector broadly flat, falling just under -1%. Profit warnings at bellwethers like Oracle Corp and weakness at Apple over concerns over the reception for the new iPhone dented investor confidence in companies where they have been focusing on their future profits and growth and perhaps not attaching as much weight to current economic environment. The third sector of note is that of Utilities which was the worst performing sector over the quarter, dropping 4%. Their generally highly indebted nature left then vulnerable to concerns over the rising and potentially sustained higher cost of debt. This was visible at companies such as Orsted, the Danish wind farm developer, which had a material profit warning due to the acute pressures of rising construction costs due to inflation but also higher than expected debt costs.

Despite having moved three months further forwards, our views are little changed from our position at the end of last quarter. We do remain optimistic for the outlook for equities over the long term, but the near term continues to present some challenges. The fact that central bankers are almost uniformly signalling they are reaching the end of their tightening cycle is encouraging. This is however balanced by the lagged effect of the feed through of higher rates into the economy. The signs that inflationary pressures from the recent recovery in the oil price is also a risk and could put further pressure on growth. We therefore are wary about overly optimistic growth assumptions and have to take comfort from the combination of the conservative expectations and low valuation found in some equity markets. The UK equity market for example trades on an 11x earnings multiple, over 4% yield and near zero expected earnings growth for the next two years providing what we see as a margin of safety. We find this margin of safety in other markets such as Europe, Emerging markets and to a lesser extent in Japan. The US market stands in contrast trading on 19x and with expectations of over 10% earnings growth for the coming year already embedded into numbers.

Against this backdrop we take comfort from our investment approach. Focusing on high quality companies that we can invest in at a reasonable price and then own over the long term should help soften any coming volatility and help provide consistent long term investment returns.

Note
1) Source: Border to Coast

Border to Coast News

People:

- We are pleased to welcome Sally Ronald as our new Head of Research. Sally most recently led the Department for Business and Trade's German operations based in the British Embassy in Berlin, promoting the UK as an investment destination and trading partner.
- We are also pleased to welcome Teodora Harrop to the second line team, as our new Head of Compliance. Teodora joins us from the Link Group, where she was most recently the Head of Risk & Compliance at a subsidiary operating in the banking and credit management servicing sector.

Investment Funds:

- Border to Coast launched a new £700m Emerging Markets Equity Alpha Fund in Q3. Using the benefits of its collective scale, Border to Coast has secured cost-effective access to highly specialised, experienced managers for its Partner Funds. Goldman Sachs Asset Management and Baillie Gifford were chosen to manage Emerging Markets ex-China equity mandates accounting for around two-thirds of the fund. UBS and FountainCap will each manage dedicated China equity mandates, making up around a third of the portfolio.

Responsible Investment:

- Following the AGM we published our Responsible Investment & Stewardship Report and Climate Change Reports. These reports highlight:
    - 83% of Partner Fund assets are pooled, with Border to Coast directly responsible for £40.3bn;
    - Our plans to launch 'UK Opportunities', which aims to invest across the regions of the UK;
    - £8.3bn is now invested in assets supporting the transition to net zero;
    - A 47% reduction in financed emissions compared to the 2019 baseline. While subject to fluctuations, we are on-target for the targeted 53% drop by 2025.
- We are happy to announce that we've been shortlisted for the Pensions for Purpose Best Climate Change Policy statement.
- We also supported the letter from the CEOs of Institutional Investors Group on Climate Change (IIGCC), Principles for Responsible Investment and UKSIF along with other investors urging the UK Prime Minister not to backtrack on vital policy measures that support the UK's transition to net zero.
- We responded to two consultations: the FCA's consultation on Primary Markets Effectiveness highlighting three areas of concern: significant transactions vote; related party transactions; proposed changes to dual class share structures; and the FCA's Vote Reporting Group consultation on a voluntary, standardised and comprehensive vote reporting template.

Other News:

- In September, it was fantastic to welcome so many people from our Partner Funds and across the industry to our annual conference in Leeds. With 150+ joining us, it was our best attended to date. We covered a huge range of topics, including how to invest through the economic cycle and the power of engagement, and were joined by Mark Carney, former Governor of the Bank of England, current UN Special Envoy on Climate Action and Finance, and Chair and Head of Transition Investing at Brookfield. He discussed the opportunities and challenges for investors in the journey to Net Zero and gave some insights into what to look out for at the upcoming COP28 event.
- With the LAPF having 'retired' 'Pool of the Year', we are delighted that we won 'Pooling Innovation' at the LAPF annual awards held in September. Partnership is about working together to tackle challenges and create effective and innovative solutions. While the Pool Innovation of the Year award may have our name on it, it was only made possible due to the support of our Partner Funds.
- The Government has finally published the long-awaited consultation on the future of pooling. It covers a wide range of topics, including the pace and scale of pooling, LGPS investments and Levelling Up, and investment

opportunities in private equity. While the original pooling consultation may have been the catalyst for us coming together, a strength of our Partnership has been doing what's right for Partner Funds in delivering the primary objective of paying pensions to members cost effectively and sustainably, and not simply ticking a Government policy box. We have every confidence this remains the case. The outcome of these discussions will form the cornerstone of our next phase of strategic development – both for Border to Coast and for our ecosystem as a whole.

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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Fund List and Inception Dates

Fund	Inception Date
Border to Coast UK Listed Equity	26/07/2018
Border to Coast Overseas Dev Markets	26/07/2018
Border to Coast Emerging Markets Equity	22/10/2018
Border to Coast UK Listed Equity Alpha	14/12/2018
Border to Coast Global Equity Alpha	24/10/2019
Border to Coast Sterling Investment Grade Credit	18/03/2020
Border to Coast Sterling Index-Linked Bond	23/10/2020
Border to Coast Multi Asset Credit	11/11/2021
Border to Coast Listed Alternatives	18/02/2022
Border to Coast Emerging Markets Equity Alpha	31/07/2023

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STATE STREET GLOBAL ADVISORS

Quarterly Investment Report - 80237

For the Period 01 Jul 2023 to 30 Sep 2023

Middlesbrough Borough Council

Middlesbrough Borough Council

Report ID: 3811607.1 Published: 10 Oct 2023

Quarterly Investment Report - 80237

As of 30 Sep 2023

Middlesbrough Borough Council

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Accounting Summary (expressed in GBP)

As of 30 Sep 2023

Middlesbrough Borough Council

	Market Value 01 Jul 2023		Contributions	Withdrawals	Change in Market Value	Market Value 30 Sep 2023	
Passive Equity Portfolio							
North America Screened Index Equity Sub-Fund	40,743,594	6.81%	0	0	419,389	41,162,983	6.91%
Europe ex UK Screened Index Equity Sub-Fund	133,477,112	22.30%	0	0	(2,501,492)	130,975,619	21.98%
Japan Screened Index Equity Sub-Fund	110,949,250	18.53%	0	0	3,376,337	114,325,587	19.19%
Asia Pacific ex Japan Screened Index Equity Sub-Fund	313,425,456	52.36%	0	0	(4,014,831)	309,410,625	51.93%
Total	**598,595,411**	**100.00%**	**0**	**0**	**(2,720,597)**	**595,874,814**	**100.00%**

Performance Summary (expressed in GBP)

As of 30 Sep 2023

Middlesbrough Borough Council

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Inception
Passive Equity Portfolio								
North America Screened Index Equity Sub-Fund								21 Sep 2018
Total Returns	-0.99%	1.03%	12.40%	11.46%	11.62%	11.15%	N/A	11.32%
FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX	-1.03%	0.90%	11.99%	10.92%	11.10%	10.82%	N/A	10.99%
Difference	**0.04%**	**0.13%**	**0.41%**	**0.54%**	**0.52%**	**0.33%**	**N/A**	**0.33%**
Total Returns (Net)	-0.99%	1.02%	12.39%	11.44%	11.60%	N/A	N/A	N/A
FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX	-1.03%	0.90%	11.99%	10.92%	11.10%	N/A	N/A	N/A
Difference	**0.04%**	**0.12%**	**0.40%**	**0.52%**	**0.50%**	**N/A**	**N/A**	**N/A**
Europe ex UK Screened Index Equity Sub-Fund								26 Sep 2018
Total Returns	-1.15%	-1.87%	7.07%	19.40%	8.29%	6.20%	N/A	5.98%
FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX	-1.21%	-1.97%	6.60%	19.01%	7.79%	5.94%	N/A	5.72%
Difference	**0.06%**	**0.10%**	**0.47%**	**0.39%**	**0.50%**	**0.26%**	**N/A**	**0.26%**
Total Returns (Net)	-1.15%	-1.88%	7.05%	19.38%	8.27%	N/A	N/A	N/A
FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX	-1.21%	-1.97%	6.60%	19.01%	7.79%	N/A	N/A	N/A
Difference	**0.06%**	**0.09%**	**0.45%**	**0.37%**	**0.48%**	**N/A**	**N/A**	**N/A**
Japan Screened Index Equity Sub-Fund								01 Jun 2001
Total Returns	1.72%	3.04%	9.65%	15.07%	5.09%	3.61%	7.88%	4.24%
FTSE JAPAN EX CONTROVERSIES EX CW INDEX	1.57%	2.89%	9.24%	14.56%	4.63%	3.35%	7.76%	4.07%
Difference	**0.15%**	**0.15%**	**0.41%**	**0.51%**	**0.46%**	**0.26%**	**0.12%**	**0.17%**

Middlesbrough Borough Council

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Inception
Total Returns (Net)	1.72%	3.04%	9.64%	15.04%	5.08%	N/A	N/A	N/A
FTSE JAPAN EX CONTROVERSIES EX CW INDEX	1.57%	2.89%	9.24%	14.56%	4.63%	N/A	N/A	N/A
Difference	**0.15%**	**0.15%**	**0.40%**	**0.48%**	**0.45%**	**N/A**	**N/A**	**N/A**
Asia Pacific ex Japan Screened Index Equity Sub-Fund								01 Jun 2001
Total Returns	-0.17%	-1.28%	-3.13%	4.20%	4.50%	2.73%	5.81%	8.69%
FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX	-0.11%	-1.35%	-3.17%	4.05%	4.39%	2.68%	5.75%	8.63%
Difference	**-0.06%**	**0.07%**	**0.04%**	**0.15%**	**0.11%**	**0.05%**	**0.06%**	**0.06%**
Total Returns (Net)	-0.17%	-1.29%	-3.14%	4.18%	4.48%	N/A	N/A	N/A
FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX	-0.11%	-1.35%	-3.17%	4.05%	4.39%	N/A	N/A	N/A
Difference	**-0.06%**	**0.06%**	**0.03%**	**0.13%**	**0.09%**	**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 2023

Europe ex UK Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	76.58	76.60	-0.02
ESG	77.06	77.08	-0.02
Corporate Governance	47.05	47.08	-0.03

Source: SSGA Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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	421	99.29%	99.59%
Total Number of Securities in Portfolio	424		

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Fund R-Factor Profile

Not Available	0.41%
Laggard	0.05%
Underperformer	1.22%
Average Performer	4.49%
Outperformer	16.11%
Leader	77.73%

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Nestle S.A.	4.12%	4.12%	0.00%	82.64
Novo Nordisk A/S Class B	3.89%	3.89%	0.00%	N/A
ASML Holding NV	3.17%	3.17%	0.00%	82.84
Novartis AG	2.87%	2.89%	-0.01%	91.24
Roche Holding Ltd Dividend...	2.58%	2.58%	0.00%	77.07
LVMH Moet Hennessy Louis...	2.55%	2.55%	0.00%	73.20
TotalEnergies SE	2.01%	2.01%	0.01%	83.45
SAP SE	1.94%	1.94%	0.01%	87.88
Sanofi	1.59%	1.59%	0.00%	93.35
Siemens Aktiengesellschaft	1.44%	1.45%	-0.01%	81.67

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 5 R-Factor Ratings

Schneider Electric SE	1.19%	1.20%	-0.01%	100.00
Danone SA	0.47%	0.47%	0.00%	99.04
Aena SME SA	0.14%	0.14%	0.00%	97.31
Intesa Sanpaolo S.p.A.	0.54%	0.54%	0.00%	96.08
Capgemini SE	0.38%	0.38%	-0.01%	95.58

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Bottom 5 R-Factor Ratings

CTS Eventim AG & Co. KGa...	0.05%	0.05%	0.00%	19.14
Lifco AB Class B	0.06%	0.05%	0.00%	33.62
PSP Swiss Property AG	0.07%	0.07%	0.00%	33.79
BKW AG	0.05%	0.04%	0.01%	34.26
L E Lundbergforetagen AB...	0.04%	0.04%	0.00%	36.80

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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.

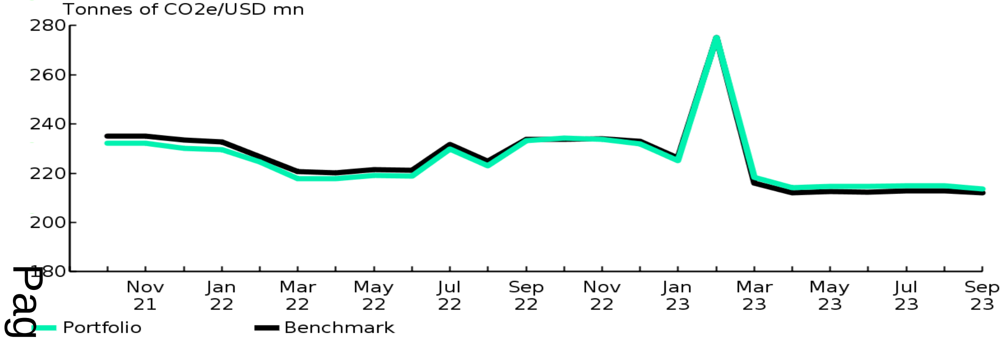
Climate Profile

As of 30 Sep 2023

Europe ex UK Screened Index Equity Sub-Fund

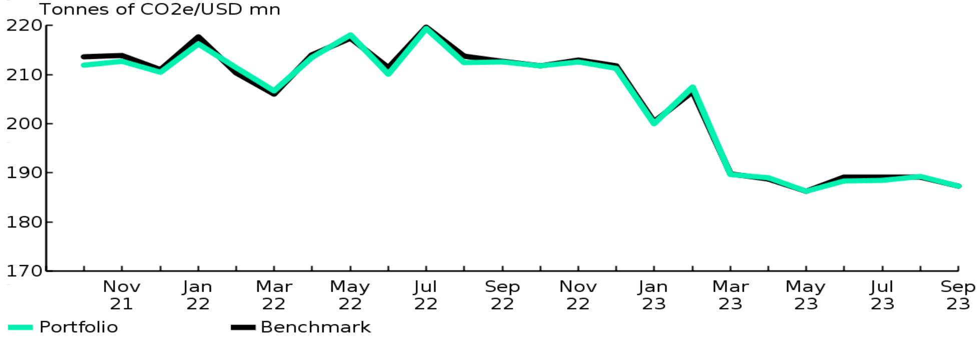
Benchmark: FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX

Carbon Intensity (Direct + Indirect)



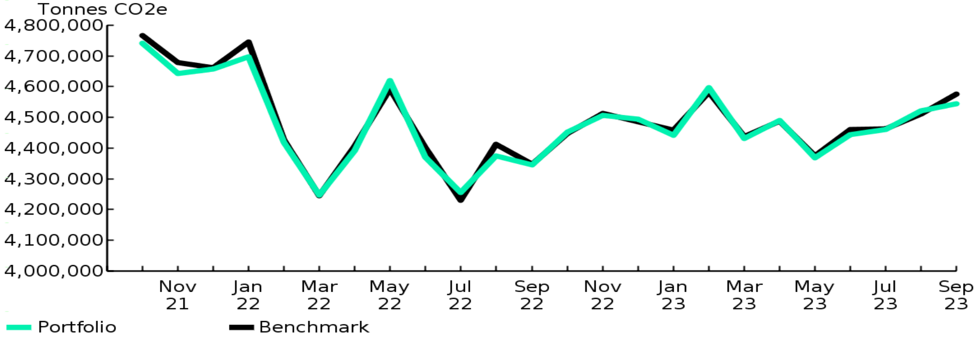
Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Weighted Average Carbon Intensity (Direct + Indirect)



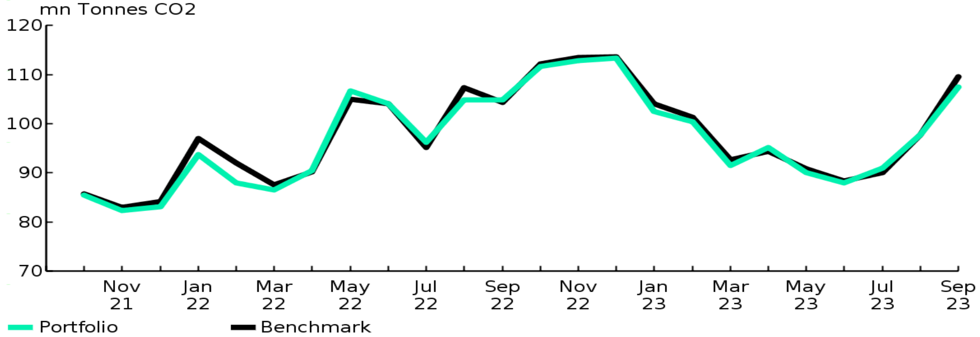
Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Scope 1+2 Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Total Reserves Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Stewardship Profile

As of 30 Sep 2023

Europe ex UK Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX

Stewardship Profile	Q2 2023
Number of Meetings Voted	372
Number of Countries	18
Management Proposals	7,029
Votes for	89.27%
Votes Against	10.73%
Shareholder Proposals	182
With Management	98.90%
Against Management	1.10%

Source: SSGA as of 30 Jun 2023

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	13
2	39
3	80
4	90
5	82
6	70
7	23
8	15
9	4
10	3
10+	1
Not Available	1
Total	**424**

Source: Factset/SSGA. Holdings as of 30 Sep 2023, Factset data as of 31 Aug 2023.

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R-Factor™ Summary

As of 30 Sep 2023

North America Screened Index Equity Sub-Fund

Benchmark: FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	68.41	68.37	0.04
ESG	66.72	66.69	0.03
Corporate Governance	66.11	66.08	0.03

Source: SSGA Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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.

Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	619	99.20%	99.48%
Total Number of Securities in Portfolio	624		

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Fund R-Factor Profile

Not Available	0.52%
Laggard	0.52%
Underperformer	3.48%
Average Performer	12.47%
Outperformer	29.83%
Leader	53.17%

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Apple Inc.	6.83%	6.79%	0.04%	89.10
Microsoft Corporation	6.28%	6.22%	0.06%	78.69
Amazon.com Inc.	3.06%	3.02%	0.03%	61.89
NVIDIA Corporation	2.76%	2.73%	0.03%	76.54
Alphabet Inc. Class A	2.09%	2.10%	-0.01%	73.02
Tesla Inc.	1.84%	1.81%	0.03%	60.55
Alphabet Inc. Class C	1.79%	1.80%	-0.01%	73.02
Meta Platforms Inc. Class A	1.77%	1.79%	-0.02%	72.49
Exxon Mobil Corporation	1.26%	1.28%	-0.01%	64.30
UnitedHealth Group Incorpo...	1.26%	1.26%	-0.01%	53.11

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 5 R-Factor Ratings

HP Inc.	0.06%	0.06%	0.00%	100.00
Cisco Systems Inc.	0.58%	0.59%	-0.01%	94.33
Apple Inc.	6.83%	6.79%	0.04%	89.10
Hasbro Inc.	0.03%	0.02%	0.00%	88.86
Canadian National Railway...	0.17%	0.17%	0.00%	87.98

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Bottom 5 R-Factor Ratings

Constellation Software Inc.	0.11%	0.11%	0.00%	13.59
Live Nation Entertainment In...	0.03%	0.03%	0.00%	17.90
D.R. Horton Inc.	0.09%	0.09%	0.00%	21.82
Liberty Broadband Corp. Cla...	0.00%	0.00%	0.00%	24.51
Liberty Broadband Corp. Cla...	0.02%	0.03%	-0.01%	24.51

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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.

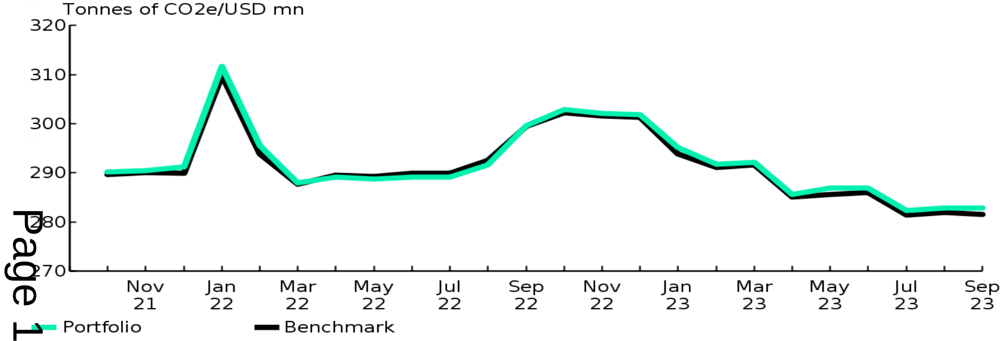
Climate Profile

As of 30 Sep 2023

North America Screened Index Equity Sub-Fund

Benchmark: FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX

Carbon Intensity (Direct + Indirect)



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

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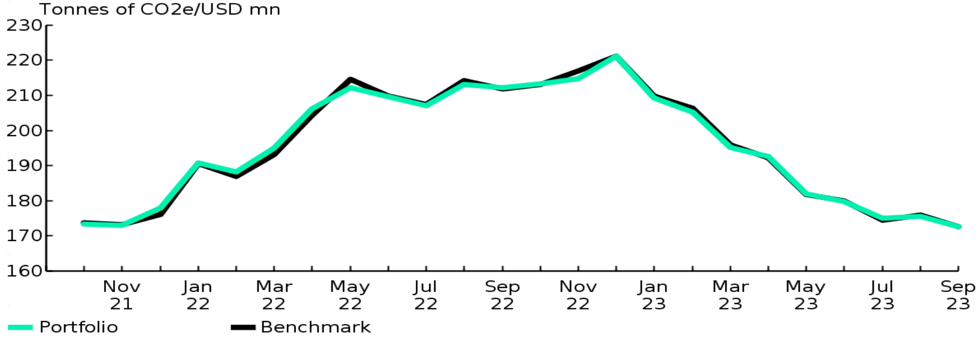
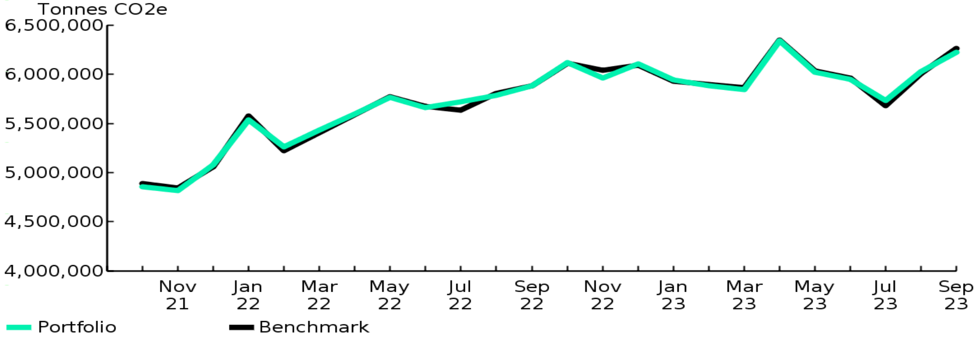
Weighted Average Carbon Intensity (Direct + Indirect)



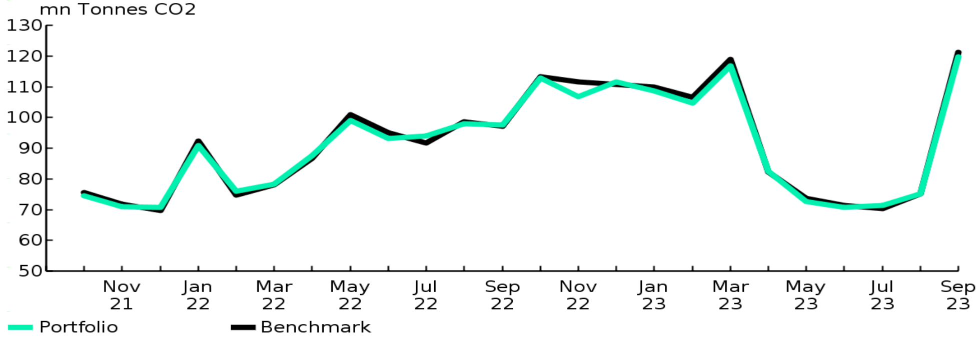
Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Scope 1+2 Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Total Reserves Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Stewardship Profile

As of 30 Sep 2023

North America Screened Index Equity Sub-Fund

Benchmark: FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX

Stewardship Profile	Q2 2023
Number of Meetings Voted	511
Number of Countries	11
Management Proposals	6,153
Votes for	92.07%
Votes Against	7.93%
Shareholder Proposals	489
With Management	82%
Against Management	18%

Source: SSGA as of 30 Jun 2023

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	15
2	77
3	213
4	186
5	82
6	30
7	13
8	2
9	0
10	0
10+	0
Not Available	3
Total	**624**

Source: Factset/SSGA. Holdings as of 30 Sep 2023, Factset data as of 31 Aug 2023.

R-Factor™ Summary

As of 30 Sep 2023

Japan Screened Index Equity Sub-Fund

Benchmark: FTSE JAPAN EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	63.82	63.83	-0.01
ESG	61.95	61.96	-0.01
Corporate Governance	67.80	67.81	-0.01

Source: SSGA Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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.

Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	498	97.84%	99.60%
Total Number of Securities in Portfolio	509		

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Fund R-Factor Profile

Not Available	0.40%
Laggard	1.97%
Underperformer	5.12%
Average Performer	14.94%
Outperformer	39.98%
Leader	37.59%

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Toyota Motor Corp.	5.45%	5.46%	0.00%	77.72
Sony Group Corporation	2.57%	2.58%	0.00%	80.28
Mitsubishi UFJ Financial Gr...	2.51%	2.51%	0.00%	66.01
Keyence Corporation	1.86%	1.84%	0.01%	48.33
Sumitomo Mitsui Financial...	1.60%	1.60%	0.01%	58.28
Tokyo Electron Ltd.	1.56%	1.55%	0.01%	75.92
HitachiLtd.	1.43%	1.42%	0.01%	73.44
Honda Motor Co. Ltd.	1.42%	1.41%	0.01%	79.67
Shin-Etsu Chemical Co Ltd	1.42%	1.43%	-0.01%	65.42
Mitsubishi Corporation	1.38%	1.39%	0.00%	59.29

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 5 R-Factor Ratings				
Ricoh Company Ltd.	0.12%	0.13%	0.00%	86.19
Daido Steel Co. Ltd.	0.04%	0.04%	0.00%	84.95
Japan Real Estate Investme...	0.13%	0.13%	0.00%	84.77
Kao Corp.	0.43%	0.43%	0.00%	83.49
Panasonic Holdings Corpor...	0.61%	0.61%	-0.01%	82.28

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Bottom 5 R-Factor Ratings				
Gungho Online Entertainme...	0.02%	0.01%	0.00%	12.95
COSMOS Pharmaceutical C...	0.05%	0.05%	0.00%	13.89
Relo Group Inc.	0.03%	0.03%	0.00%	14.03
Sankyo Co. Ltd.	0.05%	0.05%	0.00%	16.03
TSURUHA Holdings Inc.	0.07%	0.06%	0.00%	16.78

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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.

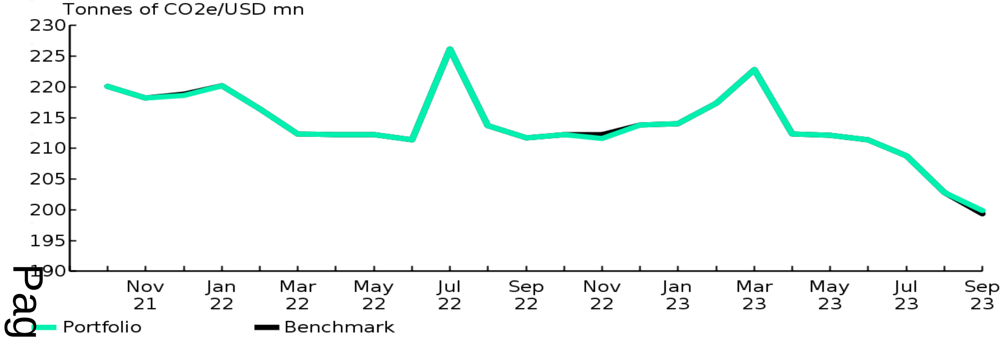
Climate Profile

As of 30 Sep 2023

Japan Screened Index Equity Sub-Fund

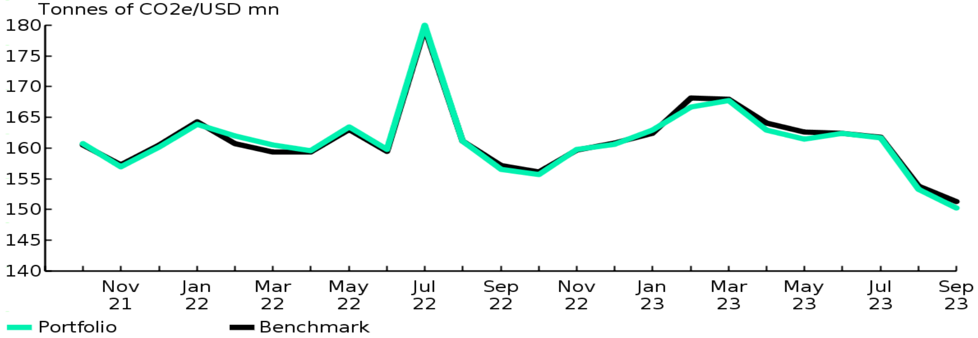
Benchmark: FTSE JAPAN EX CONTROVERSIES EX CW INDEX

Carbon Intensity (Direct + Indirect)



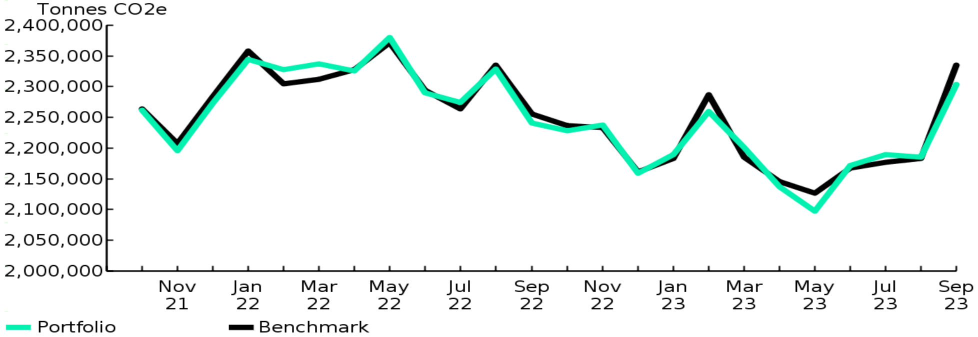
Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Weighted Average Carbon Intensity (Direct + Indirect)



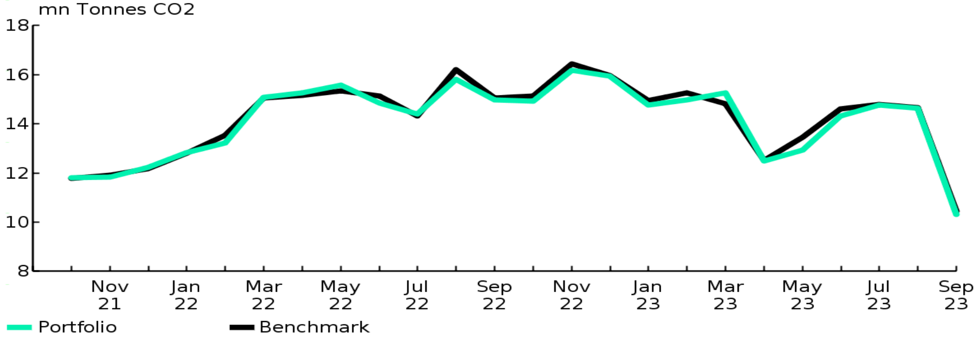
Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Scope 1+2 Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Total Reserves Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Stewardship Profile

As of 30 Sep 2023

Japan Screened Index Equity Sub-Fund

Benchmark: FTSE JAPAN EX CONTROVERSIES EX CW INDEX

Stewardship Profile	**Q2 2023**
Number of Meetings Voted	416
Number of Countries	1
Management Proposals	4,986
Votes for	92.38%
Votes Against	7.62%
Shareholder Proposals	141
With Management	92.91%
Against Management	7.09%

Source: SSGA as of 30 Jun 2023

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	109
1	222
2	123
3	38
4	14
5	3
6	0
7	0
8	0
9	0
10	0
10+	0
Not Available	0
Total	**509**

Source: Factset/SSGA. Holdings as of 30 Sep 2023, Factset data as of 31 Aug 2023.

R-Factor™ Summary

As of 30 Sep 2023

Asia Pacific ex Japan Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	65.29	65.30	-0.01
ESG	65.05	65.06	-0.01
Corporate Governance	53.25	53.28	-0.03

Source: SSGA Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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.

Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	382	97.45%	98.68%
Total Number of Securities in Portfolio	392		

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Fund R-Factor Profile

Not Available	1.32%
Laggard	2.43%
Underperformer	2.35%
Average Performer	16.94%
Outperformer	30.89%
Leader	46.06%

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Samsung Electronics Co. Lt...	9.56%	9.59%	-0.03%	79.57
Commonwealth Bank of Aus...	4.34%	4.32%	0.02%	79.74
AIA Group Limited	3.78%	3.80%	-0.02%	73.18
CSL Limited	3.11%	3.10%	0.01%	68.70
National Australia Bank Limi...	2.35%	2.34%	0.01%	79.42
ANZ Group Holdings Limite...	1.99%	1.98%	0.01%	80.83
Westpac Banking Corporati...	1.90%	1.89%	0.01%	73.35
Hong Kong Exchanges & Cl...	1.88%	1.90%	-0.01%	64.33
SK hynix Inc.	1.82%	1.83%	-0.01%	70.50
DBS Group Holdings Ltd	1.78%	1.78%	0.00%	63.07

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Top 5 R-Factor Ratings

City Developments Limited	0.09%	0.09%	0.00%	89.91
GPT Group	0.19%	0.19%	0.00%	87.78
Dexus	0.20%	0.20%	0.00%	83.87
AMP Limited	0.09%	0.09%	0.00%	80.86
ANZ Group Holdings Limite...	1.99%	1.98%	0.01%	80.83

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

Bottom 5 R-Factor Ratings

SSANGYONGC&E.CO.LTD.	0.02%	0.02%	0.00%	1.91
JS Global Lifestyle Compan...	0.01%	0.01%	0.00%	9.79
China Travel International In...	0.02%	0.02%	0.00%	10.09
Paradise Co. Ltd	0.02%	0.02%	0.00%	11.14
HOTEL SHILLA CO. LTD.	0.07%	0.08%	0.00%	12.86

Source: Factset/SSGA. Holdings as of 30 Sep 2023, R-Factor data as of 31 Aug 2023.

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.

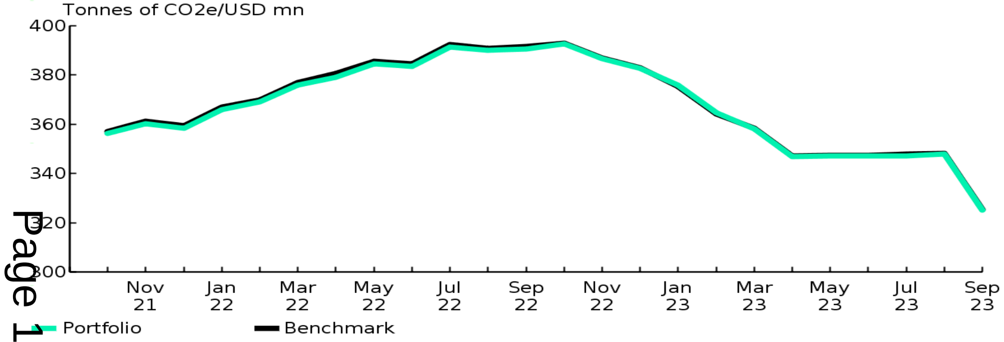
Climate Profile

As of 30 Sep 2023

Asia Pacific ex Japan Screened Index Equity Sub-Fund

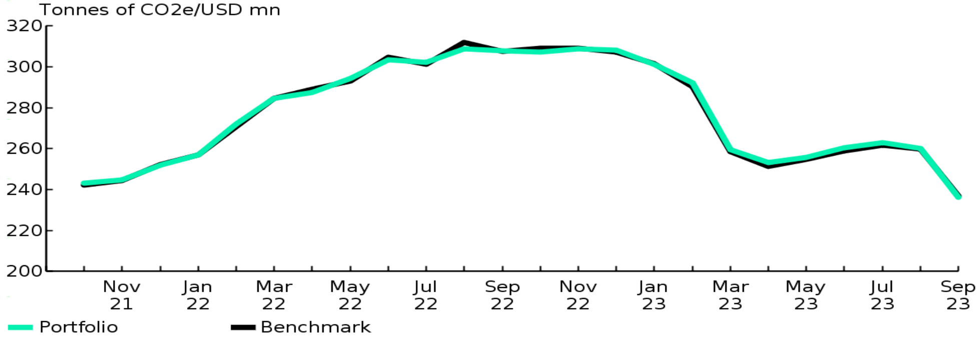
Benchmark: FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX

Carbon Intensity (Direct + Indirect)



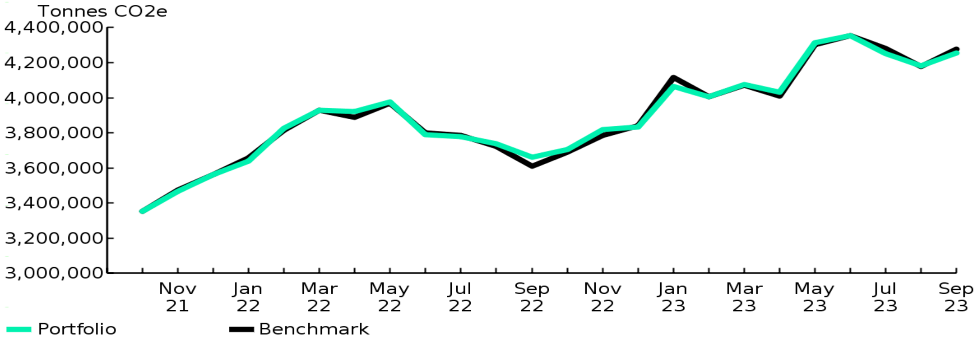
Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Weighted Average Carbon Intensity (Direct + Indirect)



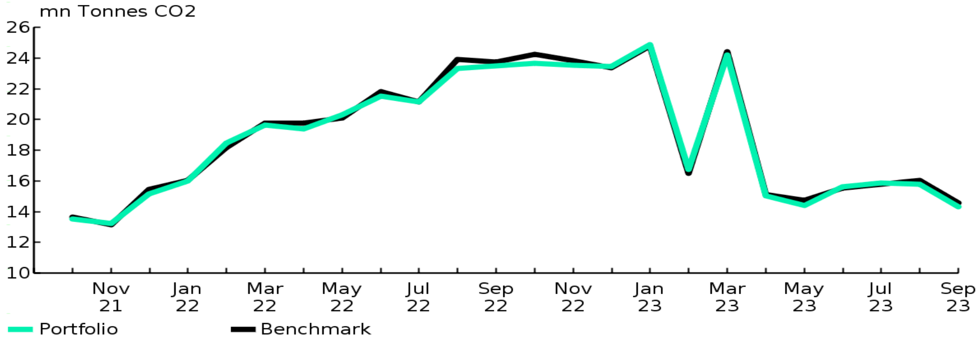
Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Scope 1+2 Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

Total Reserves Carbon Emissions



Source: SSGA Holdings as of 30 Sep 2023. Trucost data as of 31 Aug 2023.

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Stewardship Profile

As of 30 Sep 2023

Asia Pacific ex Japan Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX

Stewardship Profile	Q2 2023
Number of Meetings Voted	119
Number of Countries	9
Management Proposals	1,082
Votes for	85.03%
Votes Against	14.97%
Shareholder Proposals	6
With Management	100%
Against Management	0%

Source: SSGA as of 30 Jun 2023

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	83
1	90
2	70
3	74
4	52
5	16
6	4
7	1
8	0
9	0
10	0
10+	0
Not Available	2
Total	**392**

Source: Factset/SSGA. Holdings as of 30 Sep 2023, Factset data as of 31 Aug 2023.

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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 (Direct + Indirect) - 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 (Direct + Indirect) - 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 CO2e.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 CO2 Emissions - Measured in Metric tons of CO2. 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.
- Trucost Sections: Carbon Intensity (Direct + Indirect), Weighted Average Carbon Intensity (Direct + Indirect), Scope 1+2 Carbon Emissions, Total Reserves Carbon Emissions - Trucost® is a registered trademark of S&P Trucost Limited ("Trucost") and is used under license. The ESG Report is/are not in any way sponsored, endorsed, sold or promoted by Trucost or its affiliates (together the "Licensor Parties") and none of the Licensor Parties make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of Trucost data with the report, or (ii) the suitability of the Trucost data for the purpose to which it is being put in connection with the report. None of the Licensor Parties provide any financial or investment advice or recommendation in relation to the report. None of the Licensor Parties shall be liable (whether in negligence or otherwise) to any person for any error in the Trucost data or under any obligation to advise any person of any error therein.
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- All data sourced by State Street Global Advisors Limited unless stated otherwise.
- 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.

- If your account holds Russian securities and instruments, then as of the date of this publication, they have been fair valued. Such fair value may be zero. If your portfolio holds such Russian securities and instruments, then the portfolio may not be able to dispose of such securities and instruments depending on the relevant market, applicable sanctions requirements, and/or Russian capital controls or other counter measures. In such circumstances, the portfolio would continue to own and have exposure to Russian-related issuers and markets. Please refer to your portfolio holdings report.

BORDER TO COAST UK LISTED EQUITY FUND

ESG & CARBON REPORT

Q3 2023

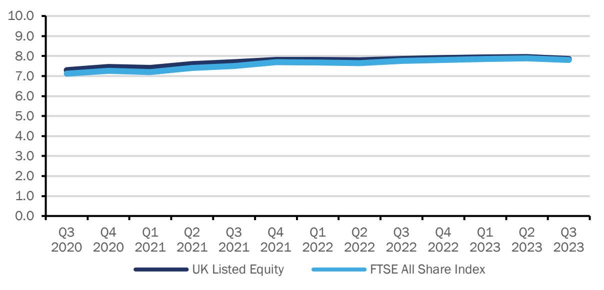
MSCI ESG RATING

AA

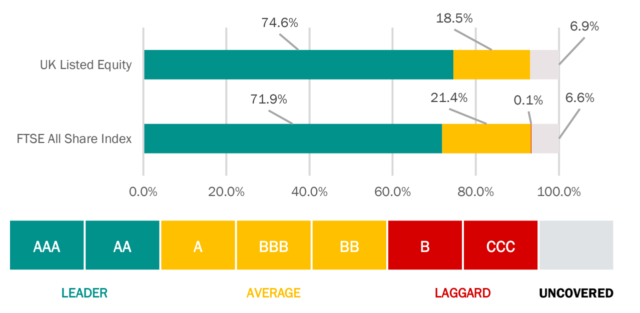
PENSIONS PARTNERSHIP

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark	(green)	Fund has an equal or better *Weighted ESG Score* than the benchmark.
UK Listed Equity	AA [1]	7.9 [1]	(green)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
FTSE All Share Index	AA [1]	7.8 [1]		(red)	Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	% Relative Weight	MSCI Rating		% Portfolio Weight	% Relative Weight	MSCI Rating
Unilever	4.9%	+0.4%	AAA [1]	Glencore	2.2%	-0.4%	BBB [1]
Diageo	3.4%	+0.4%	AAA [1]	Haleon	1.2%	+0.4%	BBB [1]
Relx	2.7%	+0.4%	AAA [1]	Beazley	0.4%	+0.2%	BBB [1]
National Grid	1.9%	+0.3%	AAA [1]	Fresnillo	0.2%	+0.2%	BBB [1]
SSE	0.8%	+0.0%	AAA [1]	BP	3.9%	-0.1%	A [1]

Quarterly ESG Commentary

- The weighted ESG score remained consistent over the quarter and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be ‘Leaders’. Furthermore, the Fund does not hold any companies considered to be ‘Laggards’ (CCC or B rated companies).
- No companies were downgraded in the quarter, and several were upgraded including British American Tobacco, Haleon, Smith & Nephew and Tate & Lyle.

Feature Stock: Fresnillo

Fresnillo is the world's leading producer of silver and the largest miner of gold in Mexico where all group mines are located. Silver primary end uses include electronic components, jewellery, coins, medicine and facilitating the energy transition via use in solar panels. The Company is rated 'BBB' by MSCI. It leads peers in implementing robust biodiversity protection and community management programs which help minimise potential disturbances from operations. It has a strong business ethics framework relative to global peers.

The Company has leading labour management practices with extensive training and employee development practices. The bias to underground mining brings increased safety and environmental risks from tailings but the Company has robust programs to mitigate these risks. The ESG score is impacted heavily due to having a 75% controlling shareholder; however, since the IPO in 2008 they have proven to be a good custodian of the Company with management decisions being aligned with those of the minority shareholders. The Company also operates in an area of water stress increasing environmental risk, however to date has managed this well.

[1]Source: MSCI ESG Research 30/09/2023

BORDER TO COAST UK LISTED EQUITY FUND

ESG & CARBON REPORT

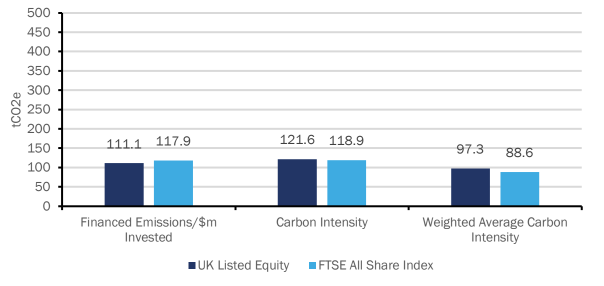
Q3 2023

MSCI ESG RATING

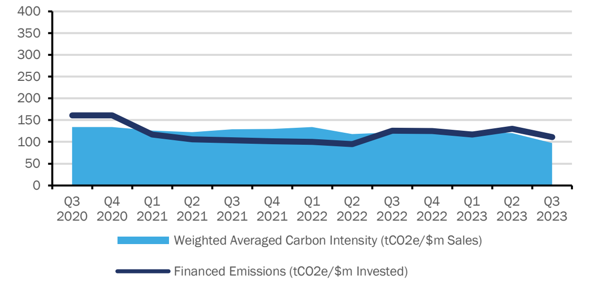
AA

BORDER TO COAST PENSIONS PARTNERSHIP

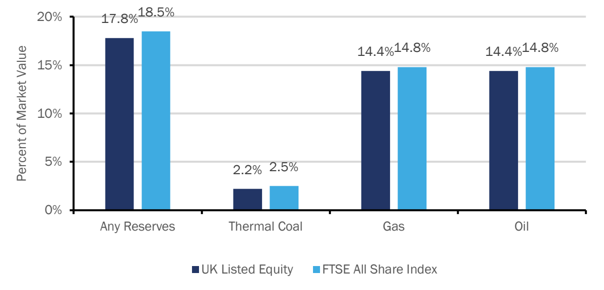
Carbon Emissions and Intensity[1]



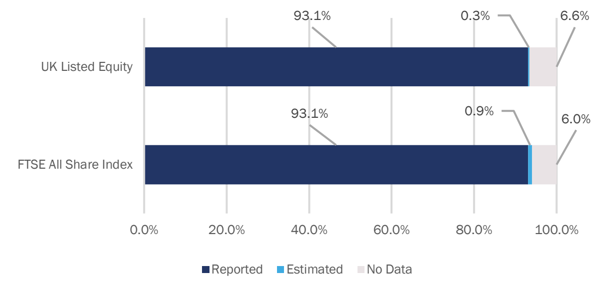
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Shell	8.4%	+0.7%	35.0% [1]	Yes	4
BP	3.9%	-0.1%	12.4% [1]	Yes	4*
Rio Tinto	2.2%	-0.3%	8.5% [1]	Yes	4
Glencore	2.2%	-0.4%	8.5% [1]	Yes	4
easyJet	0.4%	+0.3%	5.9% [1]	No	3

Quarterly Carbon Commentary

- The Fund is currently below, or in-line with, the benchmark for financed emissions and carbon intensity. Weighted Average Carbon Intensity (WACI) remains slightly above the benchmark.
- Although the Fund remains slightly above the benchmark for WACI, both WACI and financed emissions decreased in the quarter. This was largely due to a restatement of Shell's carbon emissions in an annual update and is more aligned to the Q1 2023 figure. Furthermore, CRH was removed from the FTSE All Share following a switch of the main listing to the US and the Fund's position was subsequently reduced in size. CRH previously accounted for ~13% of financed emissions.

Feature Stock: easyJet

easyJet is a European airline operating mainly from slot-constrained primary airports including Gatwick, Amsterdam, Geneva and Paris CDG, raising barriers to entry and limiting direct route competition with ultra low-cost carriers. Typically, the largest or number two airline at its airports, easyJet combines scale efficiencies with convenience through operating dense route networks, considered important factors for frequent flyers/business travellers in particular, whilst also supportive of premium pricing. easyJet Holidays, launched as recently as 2019, has already established itself as one of the largest holiday operators in the UK, adding a further growth driver.

The aviation industry is one of the most challenging sectors to decarbonise. easyJet has an MSCI ESG rating of AA (no airline has a higher rating) and has set an emissions intensity reduction target of 35% by 2035 compared to 2019, and to achieve net zero by 2050 (representing a 78% intensity reduction), principally through the increased use of sustainable aviation fuels and introduction of more fuel-efficient aircraft, with an accelerated fleet renewal programme recently announced. Border to Coast is co-leading engagement with the Company as part of the IIGCC Net Zero Engagement Initiative.

[1]Source: MSCI ESG Research 30/09/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	0.1%	0.1%
Investment Trust/ Funds	6.8%	6.5%

Important Information

The material in this report has been prepared by Border to Coast Pensions Partnership Limited ("Border to Coast") and is designed for the use of professional investors and provides investor information about this fund. The MSCI ESG Fund Ratings and material in this document are for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. There is no assurance that any socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Border to Coast accepts no liability for any loss or damage arising from any use of, or reliance on, any information provided in this document. Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2023

BORDER TO COAST OVERSEAS DEVELOPED MARKETS EQUITY FUND

ESG & CARBON REPORT

Q3 2023

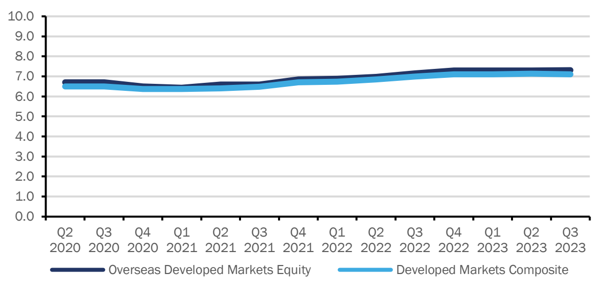
MSCI ESG RATING

AA

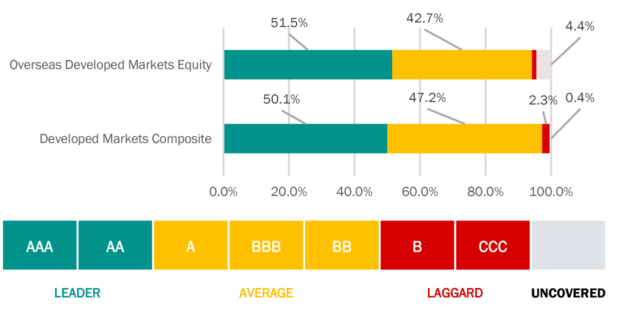
BORDER TO COAST PENSIONS PARTNERSHIP

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Overseas Developed Markets Equity	AA [1]	7.3 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
Developed Markets Composite	A [1]	7.1 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Microsoft	3.1%	+0.5%	AAA [1]	META Platforms	0.5%	-0.2%	CCC [1]
Novo Nordisk	1.8%	+0.7%	AAA [1]	Jardine Matheson	0.1%	+0.1%	CCC [1]
NVIDIA	1.7%	+0.5%	AAA [1]	Hyundai Motor	0.3%	+0.2%	B [1]
ASML	1.3%	+0.3%	AAA [1]	Koninklijke Philips	0.2%	+0.1%	B [1]
Schneider Electric	0.7%	+0.4%	AAA [1]	Bandai Namco	0.1%	+0.1%	B [1]

Quarterly ESG Commentary

- The weighted ESG score remained consistent over the quarter and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be ‘Leaders’ and a lower weighting to ‘Laggards’.
- Koninklijke Philips was downgraded to ‘B’ in the quarter and is the Feature Stock this quarter.

Feature Stock: Koninklijke Philips

Koninklijke Philips (Philips) N.V is a Dutch health technology company that operates through three primary segments: Diagnosis & Treatment business (50% of revenue), Connected Care business (25%), and Personal Health business (25%). Philips generates about 70% of its revenue from physical goods with around 25% from services and the remaining 5% from royalties and others. At current valuations Philips looks good value relative to its peers with a strong balance sheet and improving cash flows.

Philips has been downgraded by MSCI recently on the back of poor product quality and safety. As of June 2023, the FDA has received more than 105,000 medical device reports, with approximately 385 reports of deaths allegedly associated with the foam degradation of Philips’ ventilators, which were first recalled in 2021. The issue is ongoing with the CEO stating that it could take up to 7 years to resolve. Also, the FDA has recently stated to the management team that more testing is required on the sleep and respiratory care devices following the earlier recall which was another setback for the Company. Despite having industry-typical ethics compliance programs, Philips still faces regulatory investigation into alleged corruption in the supply of medical equipment in Brazil (as of June 2021). Although Philips has only recently been downgraded by MSCI, we have been aware of and monitoring these issues for some time. We believe that the main issues concerning the foam degradation have now largely been priced in with the outlook for many parts of the business looking positive.

[1]Source: MSCI ESG Research 30/09/2023

BORDER TO COAST OVERSEAS DEVELOPED MARKETS EQUITY FUND

ESG & CARBON REPORT

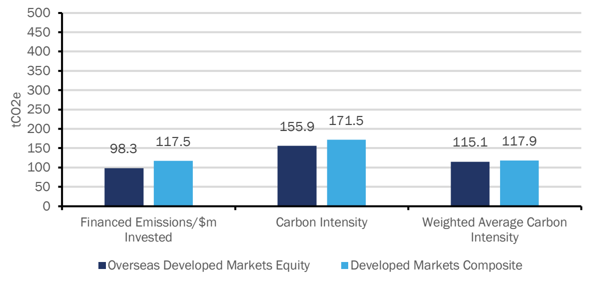
Q3 2023

MSCI ESG RATING

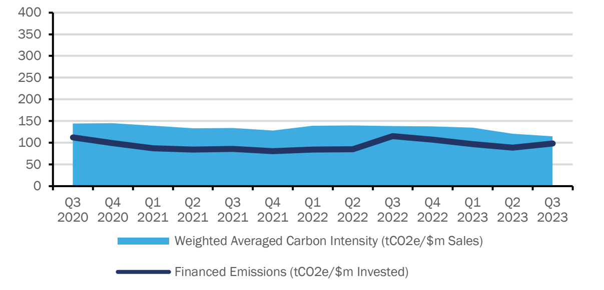
AA

PENSIONS PARTNERSHIP

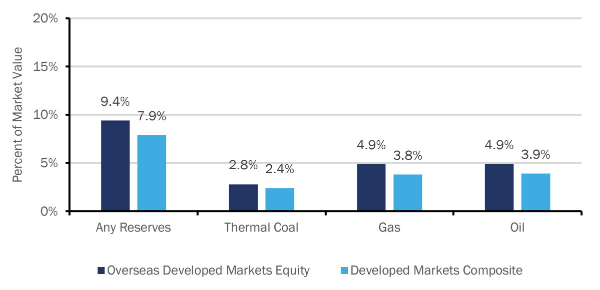
Carbon Emissions and Intensity[1]



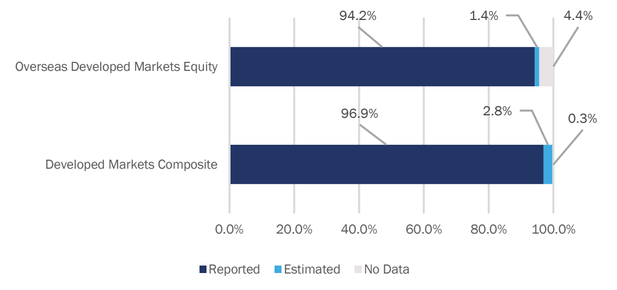
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
RWE	0.3%	+0.2%	10.9% [1]	Yes	3
ArcelorMittal	0.1%	+0.1%	8.4% [1]	Yes	4
POSCO	0.3%	+0.1%	8.3% [1]	Yes	4
Holcim	0.3%	+0.2%	7.2% [1]	Yes	4
Kansai Electric Power Company	0.2%	+0.2%	4.0% [1]	No	3

Quarterly Carbon Commentary

- The Fund is currently below the benchmark for financed emissions, carbon intensity and Weighted Average Carbon Intensity (WACI).
- Financed emissions increased slightly in the quarter but remain below the benchmark. This was largely driven by strong performance in some of the higher emitting companies such as POSCO and Rio Tinto. POSCO is covered below as this quarter's Feature Stock.

Feature Stock: POSCO

POSCO Holdings is one of the largest steel producers in the world, based in Korea. POSCO has committed to reduce greenhouse emissions with a 2050 carbon neutral goal. POSCO has also set interim goals with a short-term carbon reduction target of -20% by 2030 (vs. 2017-2019 levels) and a medium-term target of -50% by 2040; and a long-term carbon neutral ambition by 2050. POSCO is aiming to achieve this through the establishment of a climate-resilient business model with a low carbon impact focusing on a "green" *process* (improving efficiency and introducing the usage of scraps and carbon capture), *products* (for a low-carbon industry ecosystem) and *partnership* (with diverse stakeholders to achieve its target of "Corporate Citizenship: Building a Better Future Together").

The Transition Pathway Initiative (TPI) covers POSCO and gives it a management quality score of 4 ("Strategic Assessment" of climate) which is the highest score and rates POSCO's climate targets as being 1.5ºC aligned by 2050. This is supported by Climate Action 100+ where it meets all criteria for the first two indicators of the Net Zero Benchmark (net zero emissions by 2050 and long-term 1.5ºC aligned GHG reduction targets). However, as the company does not meet any CA100+ criteria for Short-term GHG Reduction Targets (up to 2026) we voted against the Chair at the 2023 AGM and will be following up with management to explain our decision.

Robeco has an ongoing engagement with POSCO under the Acceleration to Paris Theme; with key engagement topics on how the net zero ambition can be substantiated by shorter-term targets, reducing investments in thermal coal and its policy advocacy in Korea. This engagement will continue to be monitored and the company's progress towards its targets.

[1]Source: MSCI ESG Research 30/09/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	0.6%	0.6%
Investment Trust/ Funds	3.8%	3.8%

Important Information

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2023

BORDER TO COAST EMERGING MARKETS EQUITY FUND

ESG & CARBON REPORT

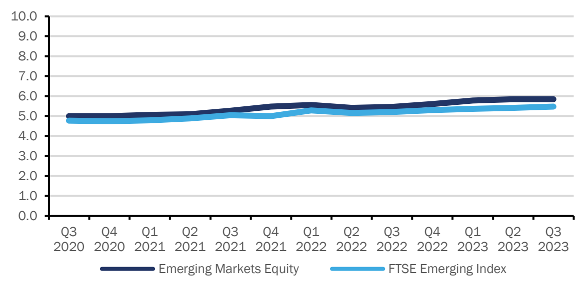
Q3 2023

MSCI ESG RATING

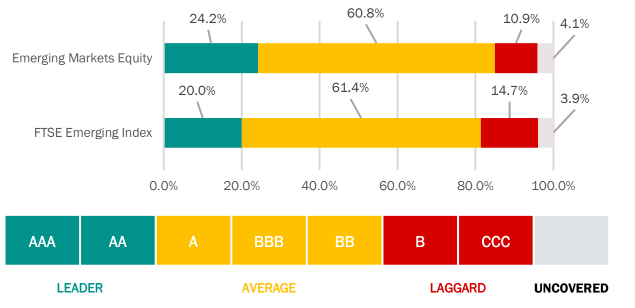
A

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Emerging Markets Equity	A [1]	5.8 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
FTSE Emerging Index	BBB [1]	5.5 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	**% Relative Weight**	**MSCI Rating**		**% Portfolio Weight**	**% Relative Weight**	**MSCI Rating**
Taiwan Semiconductor	7.3%	+1.0%	AAA [1]	Jiangsu Hengli Hydraulic	0.8%	+0.7%	CCC [1]
HDFC Bank	2.2%	+1.0%	AA [1]	Gree Electric Appliances	0.2%	+0.2%	CCC [1]
ITC Limited	2.0%	+1.7%	AA [1]	Shanghai Friendess Electronic Technology	0.1%	+0.1%	CCC [1]
Grupo Financiero Banorte	1.7%	+1.3%	AA [1]	Shenzhen YUTO Packaging	0.1%	+0.1%	CCC [1]
Naspers	1.0%	+0.6%	AA [1]	Kweichow Moutai	3.0%	+2.7%	B [1]

Quarterly ESG Commentary

- The ESG weighted score remained flat over the quarter and above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be 'Leaders' and a lower weighting to companies considered to be 'Laggards'.
- During the quarter Shanghai Friendess Electronic Technology (CCC) was added to the Fund. An overview of the Company is provided below. Tal Education (Feature Stock in Q4 2022) was upgraded from 'CCC' to 'B' in the quarter.

Feature Stock: Shanghai Friendess Electronic Technology

Shanghai Friendess Electronic Technology (Friendess) is a dominant player in low-power, industrial laser cutting control systems with ~70% of market share in China. The laser industry (market size: ~13bn USD in China) is likely to continue to grow above the rate of GDP in the foreseeable future driven by continued laser market penetration (e.g., replacing traditional machine tools), labour substitution and demand for higher quality and precision. The market has underestimated the pace of growth and demand for high-end manufacturing in China and COVID has accelerated this growth even further. Friendess is expected to grow its sales over the next 5 years.

Friendess's main business of laser cutting tools and associated industrial software, reduces waste and the release of associated by-products by improving the efficiency of commercial cutting. Friendess is rated as 'CCC' by MSCI due in large part to its rating on corporate governance. These governance concerns can be somewhat typical of companies based in China, which include board independence, combined CEO and Chair positions and controlling shareholders. MSCI also has concerns relating to non-disclosure or the absence of certain policies and initiatives, which are not common for Chinese companies to disclose. Friendess has a best-in-class customer service provision which results in a price premium of up to 2x versus domestic peers. Friendess has only experienced one full MSCI rating cycle and positively the ESG Score has increased over this period.

[1]Source: MSCI ESG Research 30/09/2023

BORDER TO COAST EMERGING MARKETS EQUITY FUND

ESG & CARBON REPORT

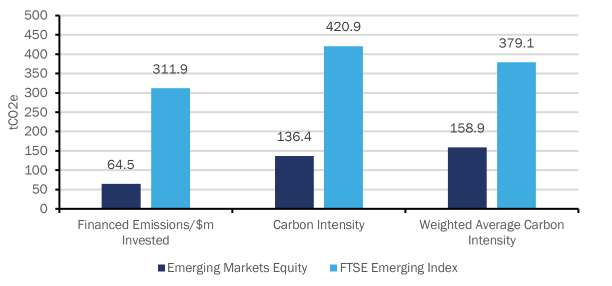
Q3 2023

MSCI ESG RATING

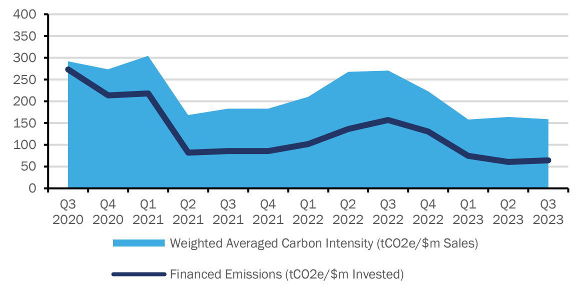
A

BORDER TO COAST PENSIONS PARTNERSHIP

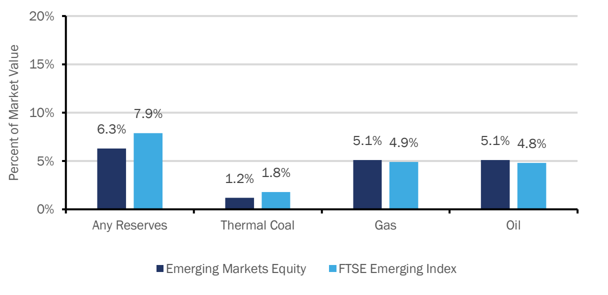
Carbon Emissions and Intensity[1]



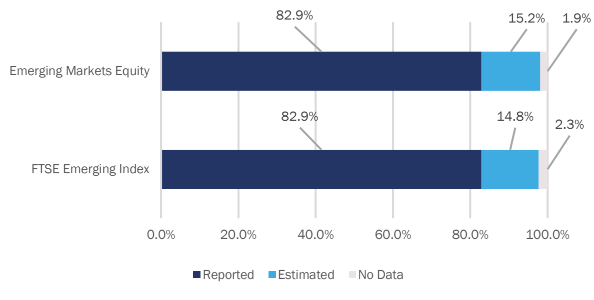
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Qatar Gas Transport Company	0.7%	+0.6%	10.2% [1]	No	N/A
PetroChina	0.6%	+0.4%	8.4% [1]	Yes	3
Reliance Industries	2.2%	+0.7%	8.2% [1]	Yes	1
Grasim Industries	1.0%	+0.9%	6.5% [1]	No	N/A
Grupo Traxion	0.7%	+0.7%	6.1% [1]	No	N/A

Quarterly Carbon Commentary

- The Fund is currently significantly below the benchmark for carbon emissions, carbon intensity and weighted average carbon intensity (WACI).
- Carbon emissions remained flat in the quarter. PT United Tractors was exited in the quarter and previously accounted for ~6% of fund financed emissions.

Feature Stock: Qatar Gas Transport Company

Qatar Gas Transport Company, also known by its trading name, Nakilat, is a liquefied natural gas ('LNG') transport operator. The Company was established in 2004 with the strategic aim of becoming Qatar's LNG sector shipping arm. It currently has the world's largest LNG carrier fleet in operation, with a fleet of 74 vessels both wholly and jointly owned, putting them in control of approximately 11% of the global LNG carrier fleet.

The global awareness of climate change has resulted in commitments across the globe to reduce greenhouse gas emissions. These commitments have timeframes that require an energy transition to progressively move to reduce the use of fossil fuels, as well as a rebalancing to cleaner energy sources. Though still a fossil fuel, LNG is perhaps the cleanest and it represents a complementary pathway to reduce greenhouse gas emissions. LNG generates 30% less carbon dioxide than fuel oil and 45% less than coal, with a two-fold reduction in nitrogen dioxide and almost no sulphur dioxide. The invasion of the Ukraine by Russia has resulted in even faster growth in demand for LNG as Europe has looked to improve its energy security and diversify its supply away from Russia. Qatar has the world's third largest proven gas reserves and is undergoing rapid expansion and growth in its LNG capacity. The Company provides the shipping infrastructure for this supply to be transported to the customer and as such has attractive long-term growth prospects. The Company has committed to the International Maritime Organisation's decarbonisation target for 2050 and has set operational targets to decarbonise its fleet to be achieved by that date.

[1]Source: MSCI ESG Research 30/09/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	3.2%	1.0%
Investment Trust/ Funds	0.9%	0.9%

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2023

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TEESSIDE PENSION FUND

Border to Coast

Teesside Pensions Committee - December 2023

Agenda Item 7

YOUR INVESTMENTS WITH BORDER TO COAST

LISTED INVESTMENTS AS AT 30TH SEPTEMBER 2023

Listed Investments	Value (as at 30/09/2023)	Value % of Total Assets
UK Listed Equity	£603m	24.5
Overseas Developed Markets	£1,655m	67.2
Emerging Markets Equity	£204m	8.3

COMMITMENT TO BORDER TO COAST'S PRIVATE MARKET STRATEGIES

Sleeve	Series 1	1A	1B	1C	Series 2	2A	2B
Private Equity	£200m	£100m	£50m	£50m	£200m	£100m	£100m
Infrastructure	£200m	£100m	£50m	£50m	£300m	£150m	£150m
Climate Opportunities	N/a	N/a	N/a	N/a	£80m	£80m	N/a

Source: Northern Trust/Border to Coast

MARKET OVERVIEW– Q3 2023

EQUITY HEADWINDS ARE BUILDING

- Global equity performance has been driven by the AI theme as valuations have expanded, especially in the US

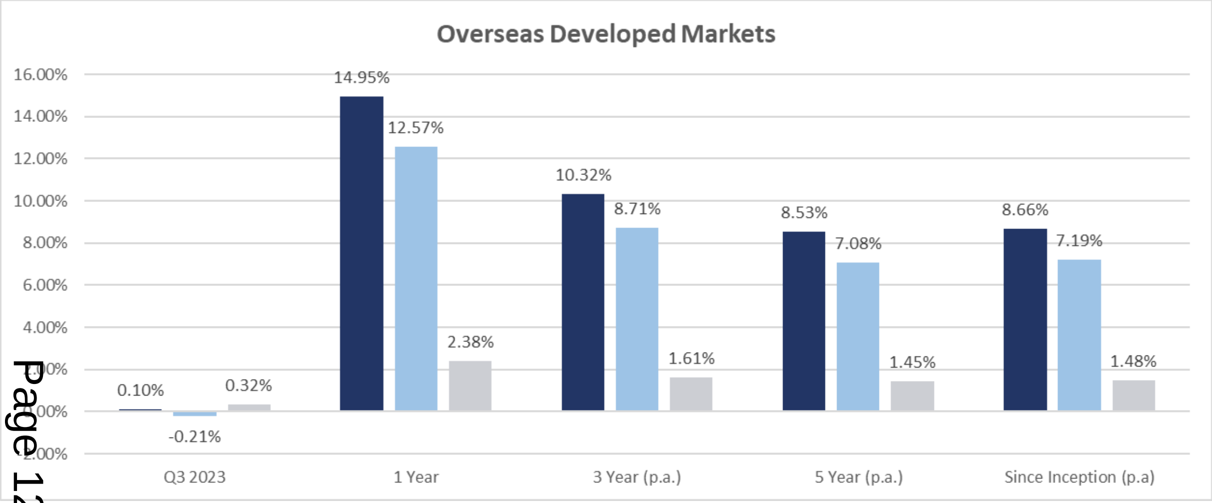
CENTRAL BANK RATES CLOSE TO PEAK

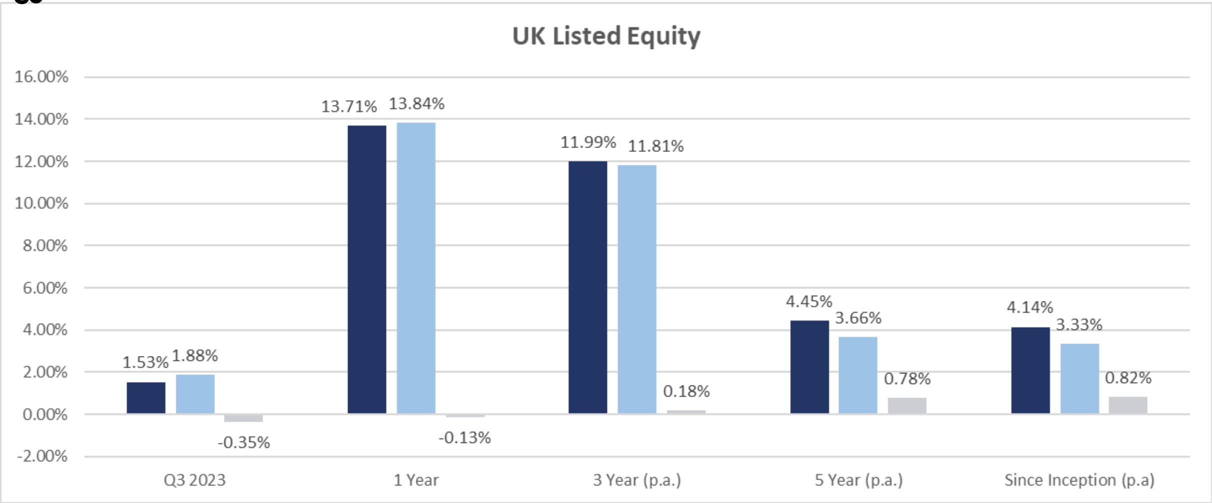
- Duration increasingly attractive as central bank rates are close to peak; central bank focus could shift from inflation to growth

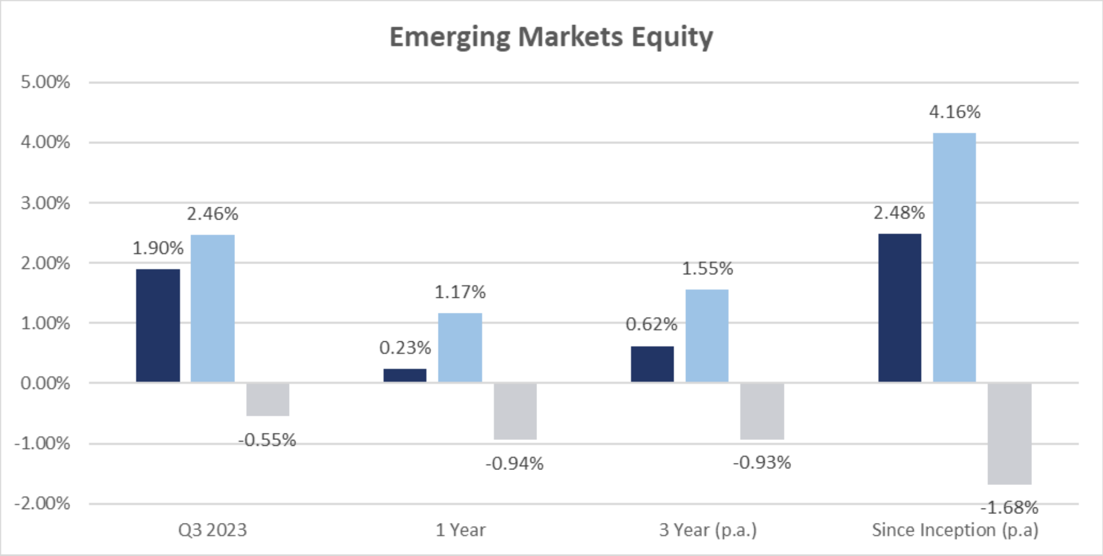
SELECTIVE CREDIT OPPORTUNITIES OFFER HIGH QUALITY CARRY

- Higher quality assets within credit (i.e. EMD Sovereigns and Investment Grade Credit) offer good yields with the potential tailwind of duration

LISTED INVESTMENTS – PERFORMANCE TO Q3 2023







Fund

Benchmark

Relative Performance

Overseas Developed Markets Benchmark: 40% S&P 500, 30% FTSE Developed Europe Ex UK, 20% FTSE Developed Asia Ex Japan, 10% FTSE Japan

UK Listed Equity Market Benchmark: FTSE All Share GBP

Emerging Market Equity Benchmark[1]: FTSE Emerging Markets

[1]S&P Emerging Markets BMI (Net) between 22nd October 2018 to 9th April 2021. Benchmark equal to fund return between 10th April to 28th April 2021 (Performance holiday for fund restructure)

Source: Northern Trust, Border to Coast 30th September 2023

Note: Figures refer to the past. Past performance is not an indicator of future performance and is not guaranteed.

PRIVATE EQUITY: SUMMARY

Private Equity	Key Metrics - 30 June 2023
Target IRR	10%
Series 1 IRR	18.9%
Series 1 TVPI	1.29x

Series 1A	29 Sept 2023	30 June 2023
Capital Committed	99.7%	99.7%
Capital Drawn	78.7%	73.8%
Capital Distributed[1]	17.5%	13.0%

Series 1B	29 Sept 2023	30 June 2023
Capital Committed	99.1%	99.1%
Capital Drawn	65.9%	60.4%
Capital Distributed[1]	2.0%	0.7%

Series 1C	29 Sept 2023	30 June 2023
Capital Committed	100.0%	100.0%
Capital Drawn	40.7%	39.2%
Capital Distributed[1]	0.1%	0.1%

Series 2A	29 Sept 2023	30 June 2023
Capital Committed	99.8%	99.9%
Capital Drawn	9.7%	5.0%
Capital Distributed[1]	0.0%	0.0%

Series 2B	29 Sept 2023	30 June 2023
Capital Committed	45.8%	26.4%
Capital Drawn	1.6%	0.0%
Capital Distributed[1]	0.0%	0.0%

Source: Allbourne / Private Monitor
1 Including Recallable Distributions.

Page 129

INFRASTRUCTURE: SUMMARY

Page 130

Infrastructure	Key Metrics - 30 June 2023
Target IRR	8%
Series 1 IRR	9.2%
Series 1 TVPI	1.14x

Series 1A	29 Sept 2023	30 June 2023
Capital Committed	98.7%	98.7%
Capital Drawn	72.8%	72.8%
Capital Distributed[1]	16.9%	12.7%

Series 1B	29 Sept 2023	30 June 2023
Capital Committed	98.7%	98.7%
Capital Drawn	53.4%	51.9%
Capital Distributed[1]	3.0%	2.5%

Series 1C	29 Sept 2023	30 June 2023
Capital Committed	100.0%	100.0%
Capital Drawn	76.1%	76.3%
Capital Distributed[1]	10.0%	8.5%

Series 2A	29 Sept 2023	30 June 2023
Capital Committed	100.0%	100.0%
Capital Drawn	31.3%	22.4%
Capital Distributed[1]	0.6%	0.0%

Series 2B	29 Sept 2023	30 June 2023
Capital Committed	21.0%	21.0%
Capital Drawn	14.2%	0.0%
Capital Distributed[1]	0.0%	0.0%

Source: Allbourne / Private Monitor
1 Including Recallable Distributions.

CLIMATE OPPORTUNITIES: SUMMARY

Series 2	29 Sept 2023	30 June 2023
Target IRR	8%	
Capital Committed	71.9%	57.6%
Capital Drawn	22.1%	27.2%
Capital Distributed[1]	0.5%	0.2%

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Source: Allbourne / Private Monitor
1 Including Recallable Distributions.

PRIVATE MARKETS: NEW COMMITMENTS FOR Q3 2023

PRIVATE EQUITY – SERIES 2B

NEUBERGER BERMAN CO-INVESTMENT FUND V

$150m commitment (August 2023)

Neuberger Berman seeks to achieve attractive risk-adjusted returns by co-investing directly into 30 - 40 private companies alongside high quality private equity firms investing in their core areas of expertise. Fund V will build a high-quality portfolio of co-investments diversified across lead sponsors, geographies, industries, investment types and enterprise values.

The manager is opportunistic and seeks to partner in transactions with higher complexity where it can be a solutions provider to the lead private equity sponsor, such as co-underwrite and mid-life co-investments transactions.

Neuberger Berman has been a consistent participant in the co-investment market for over 15 years and has developed a strong market reputation. The manager is often a preferred co-investment partner for lead private equity firms leading to differentiated access to high quality co-investment opportunities.

Border to Coast themes: **Co-Investment, ESG**

Benefits of pooling:

Reduction of fees

CLIMATE OPPORTUNITIES – SERIES 2

BLACKROCK DECARBONISATION PARTNERS I

$100m commitment (July 2023)

Decarbonization Partners is a 50:50 joint venture between BlackRock and Temasek to make late-stage venture capital and early growth equity investments into climate focused companies. The managers have demonstrated strong alignment with the strategy, contributing $300m of the $1.5bn target.

The Fund will benefit from the scale and resources of BlackRock, alongside the climate investment expertise of Temasek. BlackRock serves as the day-to-day manager of the Fund, which will seek to provide capital to support transformational climate solutions, where a company already has a proven product or technology but requires capital to achieve scale.

The Fund can leverage the existing networks, operational expertise and financing providers of the BlackRock and Temasek networks, providing the strategy with a competitive advantage in the market.

Investments are made with the intention to generate measurable decarbonisation outcomes alongside a financial return. For every investment, the manager will identify its decarbonisation potential through a set of key performance indicators, and measure and track these KPIs over the life of the investment.

Benefits of pooling:

- Reduction of fees
- Underwriting first time strategy

BORDER TO COAST UPDATE

THE FUTURE OF POOLING

Following the Government's published response to the pooling consultation, together with Partner Funds we will look to work constructively with the Government on the formal Guidance that will give consistency and clarity for all of us in the LGPS family.

PRIVATE MARKETS UPDATE

We recently provided a public update on £1.7bn of private market investments made over 2022/23. This scale has enabled significant cost reductions (c. 26% reduction in headline fees), delivering capital into the energy transition and decarbonisation, the digital revolution, and growth opportunities in emerging markets (for example).

USING OUR COLLECTIVE VOICE

The 2023 proxy voting season was the first since we updated our voting policies in early 2023, strengthening our approach to the oil and gas and banking sectors, as part of engagement escalation, to support global net zero ambitions.

WELCOMING OUR NEW BOARD MEMBER

Our Board has been further strengthened with the arrival of Richard Hawkins, as our new non-executive director, who brings in-depth technology and cyber security experience as well as significant experience operating at senior levels within financial services.

Source: CEO Newsletter November 2023

APPENDIX

PRIVATE EQUITY / INFRASTRUCTURE – IRR AND TVPI DEFINITIONS

IRR and TVPI (Pages 5 - 6)

- **Internal Rate of Return (IRR):** Most common measure of Private Equity performance. IRR is technically a discount rate: the rate at which the present value of a series of investments is equal to the present value of the returns on those investments.
- **Total Value to Paid-in Capital (TVPI):** TVPI is the sum of the DPI and RVPI. TVPI is net of fees. TVPI is expressed as a ratio.
- **Distributions to Paid-in-Capital (DPI):** The amount a partnership has distributed to its investors relative to the total capital contribution to the fund. DPI is expressed as a ratio. Also known as realization ratio.
- **Residual Value to Paid-in Capital (RVPI):** The measure of value of the limited partner's interest held within the fund, relative to the cumulative paid-in capital. RVPI is net of fees and carried interest. This is a measure of the fund's "unrealized" return on investment. RVPI is expressed as a ratio.

Source: Private Monitoring Report

PENSIONS PARTNERSHIP

DISCLAIMER

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TEESSIDE - ALTERNATIVES UPDATE

13TH DECEMBER 2023

ALTERNATIVES

Introduction

BORDER TO COAST PRIVATE MARKETS PROGRAMME

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£12.0BN COMMITMENTS Private Equity: **£3.0bn** Infrastructure: **£4.4bn** Private Credit: **£3.3bn** Climate Opportunities: **£1.35bn**	**£9.9BN** DEPLOYED **£4.7BN** DRAWN	**97** FUNDS **6** CO-INVESTMENTS
	10 PARTNER FUNDS	**~25%** ESTIMATED REDUCTION IN FEES

Source: Border to Coast, 30th September 2023

TEESSIDE'S PRIVATE MARKETS COMMITMENTS

Teesside's commitments to Border to Coast's Private Market strategies

Sleeve	Series 1	1A	1B	1C	Series 2	2A	2B
Private Equity	£200,000,000	£100,000,000	£50,000,000	£50,000,000	£200,000,000	£100,000,000	£100,000,000
Infrastructure	£200,000,000	£100,000,000	£50,000,000	£50,000,000	£300,000,000	£150,000,000	£150,000,000
Climate Opportunities					£80,000,000	£80,000,000	

Source: Border to Coast, 31 March 2023

ALTERNATIVES TEAM

MARK LYON, CFA
DEPUTY CIO
- CFA Charterholder, IMC and ACA qualified
- Over 20 years investment experience including East Riding LGPS fund. Experience in Equity, Fixed Income, Property, and a range of Alternatives.

IAN SANDIFORD, CFA
HEAD OF INVESTMENT TEAM (ALTERNATIVES)
- CFA Charterholder, IMC qualified
- 20 years investment experience including East Riding LGPS fund across Equity, Fixed Income, and a broad range of Alternatives.

PETER TURNOR, CISI
PORTFOLIO MANAGER
- CISI member, ACCA qualified
- Over 30 years investment experience including South Yorkshire and West Yorkshire LGPS funds, including a range of Alternative asset classes

LINDA DESFORGES, CFA
PORTFOLIO MANAGER
- IMC and CFA qualified
- Over 30 years investment experience including Merseyside LGPS fund and Co-operative Insurance

NICK LIVINGSTONE, CAIA
PORTFOLIO MANAGER
- CAIA, IMC and CPFA qualified
- 9 years investment experience in a range of Alternative asset classes, previously at Greater Manchester LGPS,

CHRISTIAN DOBSON, CFA
PORTFOLIO MANAGER
- CFA Charterholder
- 7 years investment, predominantly in Private Equity. Previous experience at Nationwide BS Pension Fund.

IMRAN MOHAMMED
PORTFOLIO MANAGER
- MBA
- 19 years private markets investment experience, most recently with Children's Investment Fund Foundation.

DAVID OLLIVER
PORTFOLIO MANAGER
- 19 years investment experience including 15 years across a range of private markets. Fund and direct investment experience at GMPF & Co-op

KEITH ANGOOD
PORTFOLIO MANAGER
- Over 9 years investment experience including 7 years across private markets, predominately focused on private equity. Previously at LPPI.

VICKY HALL
ASSISTANT PM
- CAIA and IMC Qualified
- 4 years investment compliance and risk experience, and over 5 years in investment management.

HEATHER MILES
INVESTMENT ANALYST
- 2 years private wealth management experience
- 2 years on BCPP Graduate Analyst programme prior to joining Alternatives team in Jan 2022

GAHAD ASHOUR
INVESTMENT ANALYST
- 2 years on BCPP Graduate Analyst programme prior to joining Alternatives team in Jan 2022
- First Class Honours Degree - Accounting

JOE MILNER
ASSISTANT PM (ODD)
- Over 12 years investment industry experience in both operational and investment roles across range of asset management and consulting groups, including Goldman Sachs, UBS & KPMG.

LAUREN MADDEN-QUERALT, CISI
ODD MANAGER
- CISI Investment Operations Certificate
- 10 years investment operations experience, including at OUEM and Goldman Sachs. Experience in operational due diligence across asset classes.

JOB VACANCY
PORTFOLIO MANAGER – UK OPPS

JOB VACANCY
ASSISTANT PM

JOB VACANCY
INVESTMENT ANALYST

Offer made. Candidate due to start end Nov '23.

PRIVATE MARKETS APPROACH

Portfolio Construction
Manager Selection
Access
Enhanced Terms

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- **Portfolio Construction – Diversification and long-term focus**
  - Designed for Partner Funds risk and return requirements
  - Diversified by Asset, Manager, Geography, Sector, Revenue Model, Counterparty, etc.
  - Identify key themes and strategies benefiting from long term structure tailwinds
- **Manager Selection rather than market timing is key to successful programme**
  - Identify managers delivering true Operational Value Add, not financial engineering
  - Focus on managers and strategies providing downside protection / risk mitigation
  - Access opportunistic or niche strategies where risk/reward is favourable
- **Access - high quality, capacity constrained managers**
  - Early engagement
  - Long term relationships
  - Position as partner of choice (scale, RI focused, co-investment capital)
- **Enhance terms & reduce risk**
  - Negotiation and engagement (Legal, Tax, ESG, etc.)
  - Reduce Fees – Scale, early engagement, first close discounts, co-investment strategies
  - Maximise relationship – Research, training, market insights, introductions

ALTERNATIVES

SERIES 1

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SERIES 1

OVERVIEW

- 100% of commitments have been made
- Pooling allows Partner Funds access to a high quality, diversified portfolio across both managers and strategies
- Private Equity drawdown rates are slightly ahead of modelling. Infrastructure drawdown rates are ahead of modelling due to the use of Co-investments

BORDER TO COAST PERFORMANCE

- Too early for current performance metrics to be meaningful
- Encouraging early performance from several more mature commitments, although realisations remain low given age of portfolio and strengthening GBP has impacted in recent quarters.
- All Series 1 programmes have positive money multiples at series level

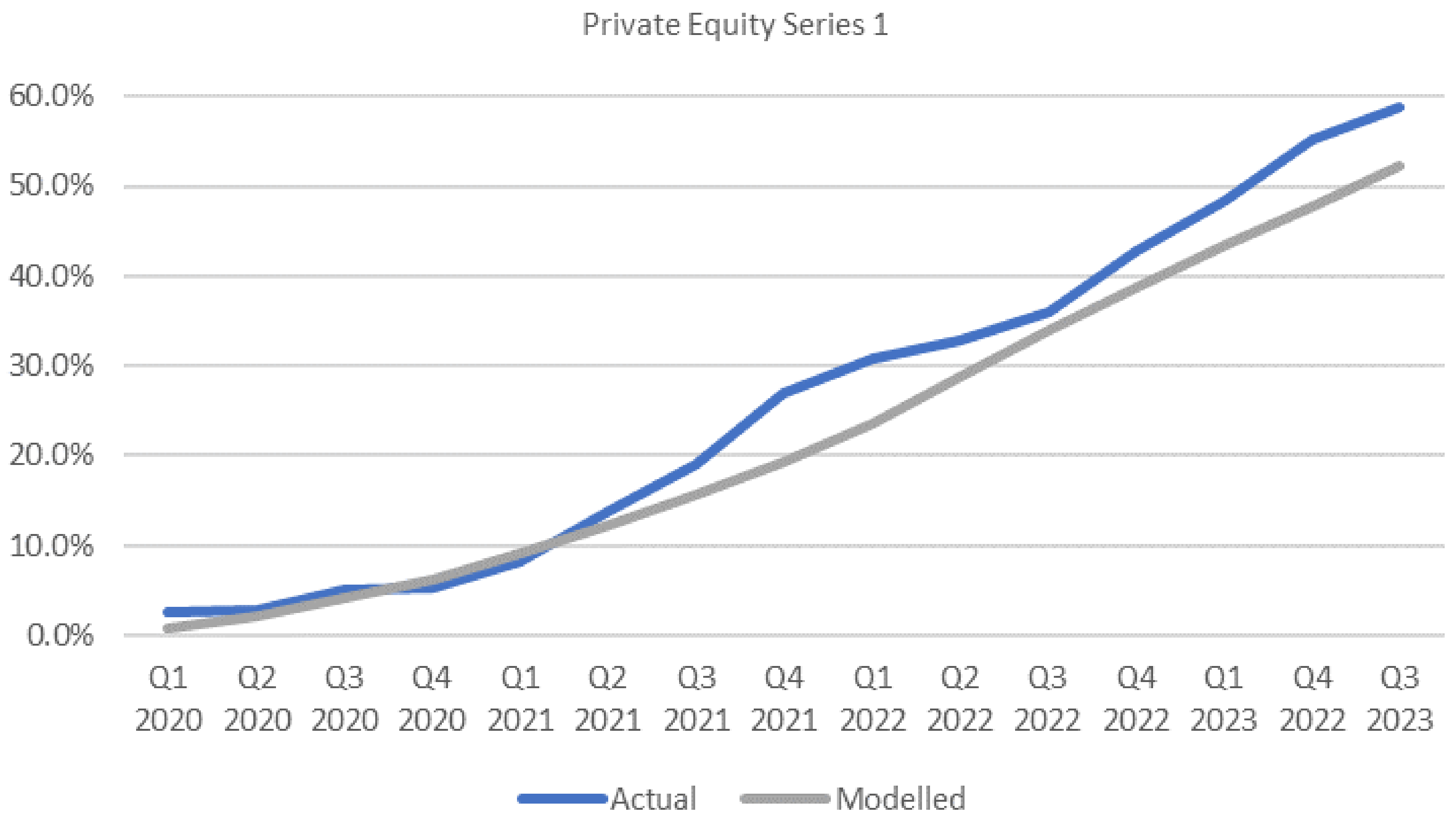
Funding Ratio and Performance Detail

Investment	Vintage Year	Investment Type	Commitment (£)	Fund Ownership %	Contributed Capital (£)	Cumulative Dist's (£)	Adjusted Valuation (£)	Total Value (£)	Value Creation (£)	PIC	DPI	RVPI	TVPI	ITD-IRR*
Infrastructure														
Series 2														
Series 2 A														
KKR Asia Pacific Infrastructure Investors II SCSp	2022	Core +	20,736,834	0.00%	0	0	-227,385	-227,385	-227,385	0.00	0.00	N/A	N/A	N/M
Meridiam Sustainable Water and Waste Fund S.L.P.	2021	Core	6,625,104	0.00%	6,170,277	22,545	6,163,869	6,186,414	16,137	0.93	0.00	1.00	1.00	N/M
Uncommitted - Infrastructure (Series 2A)	1900	Border to Coast	476,461	1.00%	0	0	0	0	0	0.00	N/A	N/A	N/A	N/M
Total Series 2 A			*146,253,301*		*32,901,412*	*32,212*	*31,189,922*	*31,222,133*	*-1,679,279*	*0.22*	*0.00*	*0.95*	*0.95*	*-12.8%*
Series 2 B														
DigitalBridge Partners III Lux, SCSP	2023	Value Add	17,163,662	0.00%	0	0	0	0	0	0.00	N/A	N/A	N/A	N/M
Stonepeak Opportunities Fund (Lux) SCSP	2022	Core +	13,730,615	0.02%	0	0	0	0	0	0.00	N/A	N/A	N/A	N/M
Uncommitted - Infrastructure (Series 2B)	1900	Border to Coast	118,777,659	0.15%	0	0	0	0	0	0.00	N/A	N/A	N/A	N/M
Total Series 2 B			*149,671,936*		*0*	*0*	*0*	*0*	*0*	*0.00*	*N/A*	*N/A*	*N/A*	*N/A*
Total Series 2			295,925,237		32,901,412	32,212	31,189,922	31,222,133	-1,679,279	0.11	0.00	0.95	0.95	-12.8%
Total Infrastructure			495,765,834		162,150,112	12,760,037	165,834,259	178,594,295	16,444,182	0.33	0.08	1.02	1.10	8.1%
Private Equity														
Series 1														
Series 1 A														
Blackstone Life Sciences V (Lux) SCSp	2020	Growth	11,021,019	0.00%	4,044,857	222,778	3,909,650	4,132,429	87,571	0.37	0.06	0.97	1.02	1.4%
Digital Alpha Fund II-A LP	2020	Growth	7,872,156	0.01%	5,848,512	70,875	6,531,929	6,602,804	754,292	0.74	0.01	1.12	1.13	11.1%
GreatPoint Ventures Innovation Fund II,L.P.	2018	Venture Capital	6,297,725	0.03%	5,524,286	0	12,720,202	12,720,202	7,195,916	0.88	0.00	2.30	2.30	31.1%
HG Genesis 9 B L.P.	2020	Buyout	6,011,415	0.00%	5,590,787	1,004,822	5,822,243	6,827,065	1,236,278	0.93	0.18	1.04	1.22	21.4%
HG Saturn 2 B L.P.	2020	Buyout	14,169,881	0.00%	11,082,645	3,439,263	11,252,433	14,691,696	3,609,051	0.78	0.31	1.02	1.33	24.1%
NB Strategic Co-Investment Partners IV	2019	Buyout	15,744,312	0.01%	11,608,085	992,843	13,994,604	14,987,448	3,379,363	0.74	0.09	1.21	1.29	20.5%
Palatine Private Equity IV LP	2019	Buyout	8,000,000	0.04%	4,986,447	0	8,269,227	8,269,227	3,282,780	0.62	0.00	1.66	1.66	40.8%
Stepstone Secondaries Opportunities Fund IV Europe	2019	Buyout	11,808,234	0.01%	6,290,675	727,145	9,556,617	10,283,762	3,993,087	0.53	0.12	1.52	1.63	29.8%
Stepstone VC Opportunities VI (Cayman) LP	2019	Venture Capital	9,446,587	0.02%	8,139,501	216,653	9,599,748	9,816,402	1,676,901	0.86	0.03	1.18	1.21	8.6%
The Baring Asia Private Equity Fund VII,SCSp	2019	Buyout	9,446,587	0.00%	6,759,508	3,170,167	9,518,574	12,688,740	5,929,232	0.72	0.47	1.41	1.88	28.7%
Uncommitted - Private Equity (Series 1A)	1900	Border to Coast	579,315	1.00%	0	0	0	0	0	0.00	N/A	N/A	N/A	N/A
Total Series 1 A			*100,397,232*		*69,875,305*	*9,844,547*	*91,175,227*	*101,019,774*	*31,144,469*	*0.70*	*0.14*	*1.30*	*1.45*	*23.1%*
Series 1 B														
AlpInvest Co-Investment Fund VIII	2020	Buyout	10,144,848	0.00%	6,282,309	111,683	6,793,600	6,905,282	622,973	0.62	0.02	1.08	1.10	9.0%
C-Bridge Healthcare Fund V, L.P.	2021	Growth	6,086,751	0.00%	3,449,224	0	4,408,209	4,408,209	958,985	0.57	0.00	1.28	1.28	23.7%

* N/A displayed if IRR is incalculable, greater than 999% or less than -99%
* N/M = Not Meaningful (displayed until 2 yrs post commitment date)
* Recallable distributions are netted against cumulative contributions
* In some instances total contributions/distributions and valuations may differ to the CAS. This is usually when a GP includes a cash flow in its quarterly CAS that did not occur until the following period.

PRIVATE EQUITY SERIES 1

DRAWDOWN RATES



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ENTIRE SERIES DRAWDOWN AS A PERCENTAGE OF TOTAL COMMITMENTS

SOURCE: ALBOURNE

INFRASTRUCTURE SERIES 1

DRAWDOWN RATES

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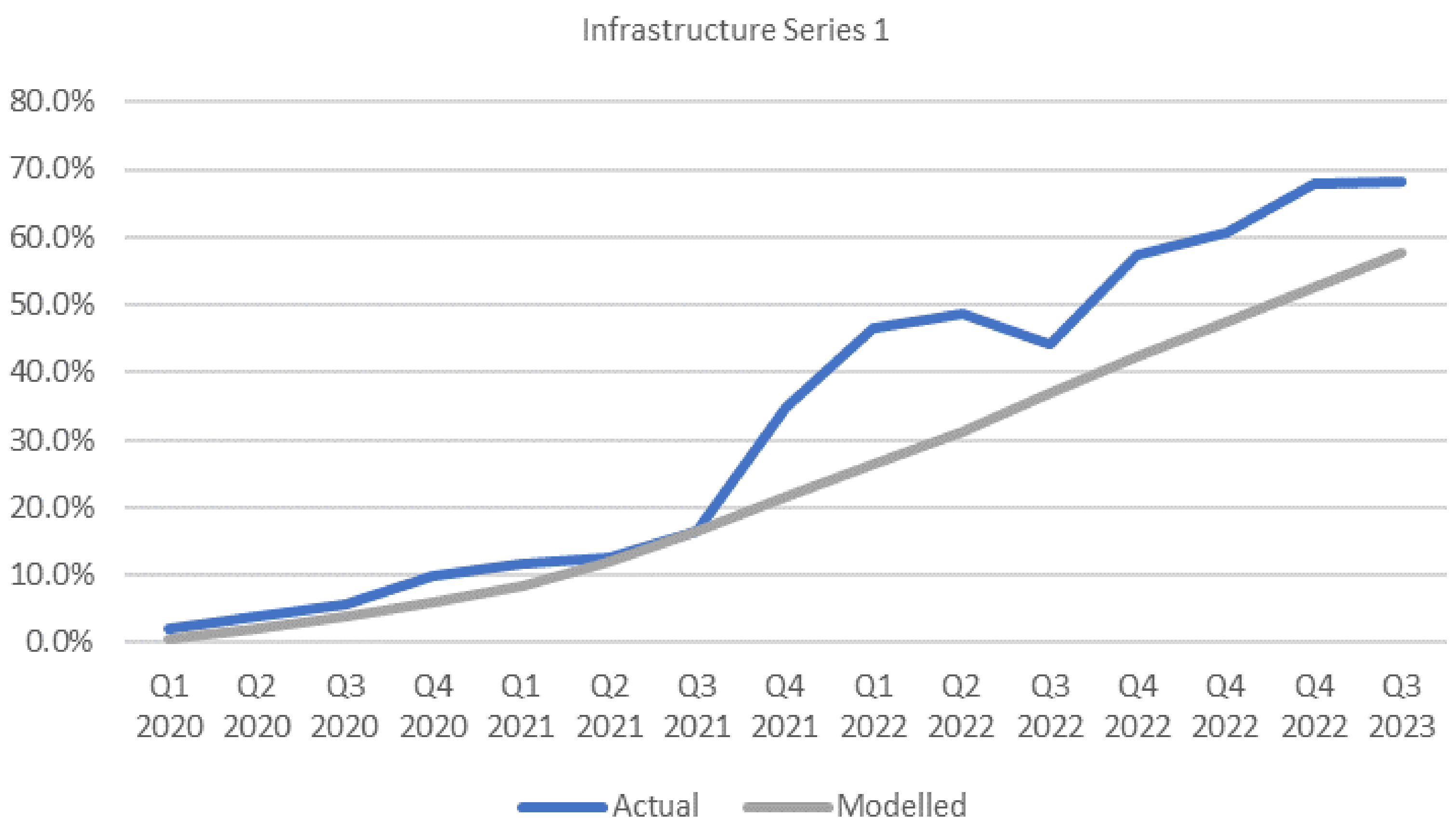

ENTIRE SERIES DRAWDOWN AS A PERCENTAGE OF TOTAL COMMITMENTS

SOURCE: ALBOURNE

ALTERNATIVES

SERIES 2

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ALTERNATIVES 24 LAUNCH

LAUNCH OF ALL PROPOSED STRATEGIES SCHEDULED 1ST APRIL 2024

- Private Equity – Series 2C
- Infrastructure – Series 2C
- Private Credit – Series 2C
- Climate Opportunities 2
- UK Opportunities
- “Net Zero” Sidecars

Alternatives 24 Launch Key
Green – Existing investor
Light Blue – For further Committee consideration
Dark Blue – For Committee awareness

PRIVATE EQUITY: AREAS OF FOCUS SERIES

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.

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

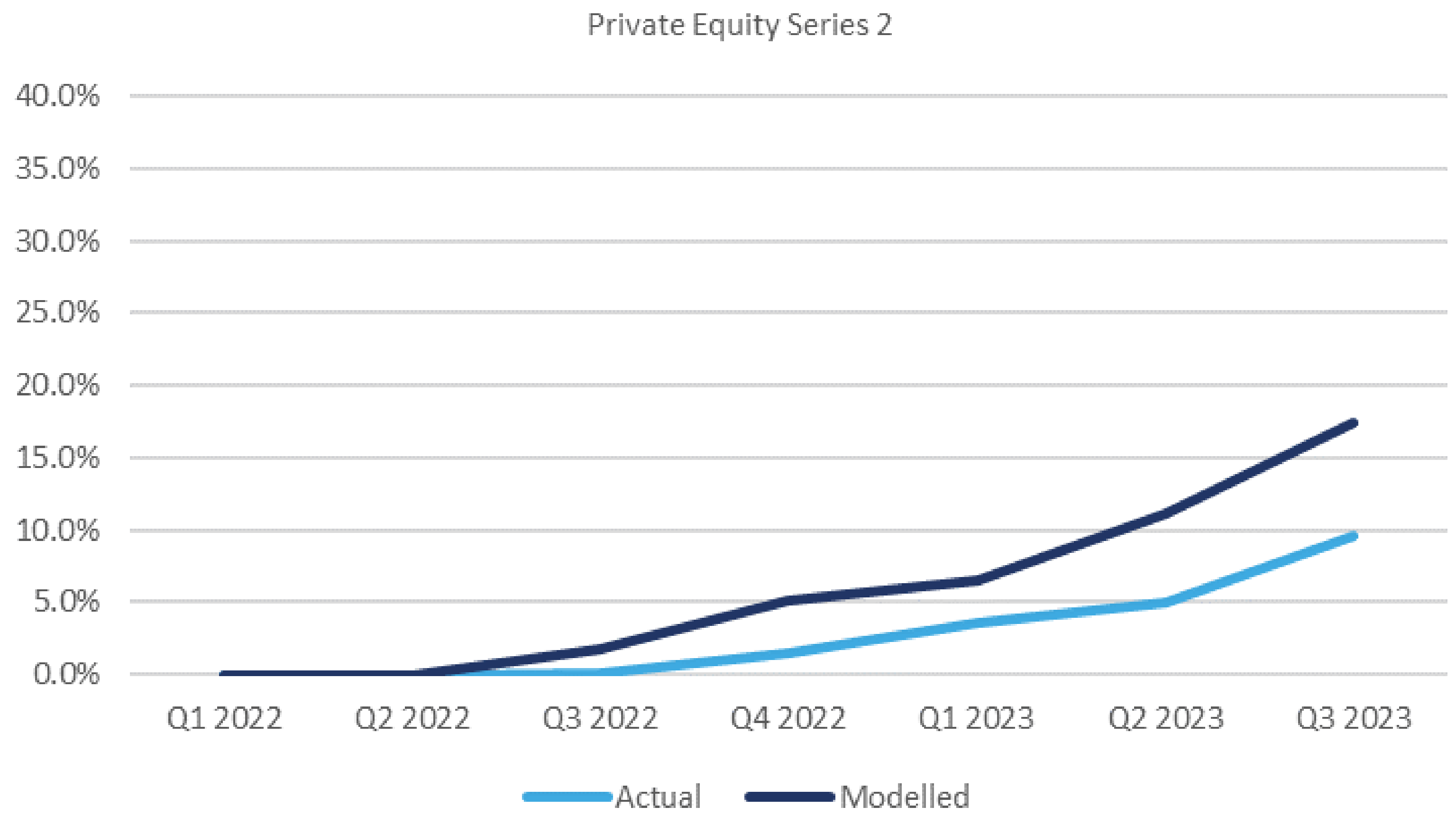
Long term structural drivers – technology (software and digitalisation) and healthcare (trends in global demographics and increased per capita spending).

CO-INVESTMENTS

Access to a diversified range of investments, either through co-investment funds, managed accounts or direct co-investments, with a lower fee structure.

PRIVATE EQUITY SERIES 2

DRAWDOWN RATES



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ENTIRE SERIES DRAWDOWN AS A PERCENTAGE OF TOTAL COMMITMENTS

SOURCE: ALBOURNE

INTERNAL

INFRASTRUCTURE : AREAS OF FOCUS SERIES

OPERATIONAL VALUE ADD

Deliver enhanced returns through operational improvements with a focus towards income and less reliance on leverage to generate returns.

ENERGY TRANSITION

Investments that enable or benefit from the move to a lower carbon economy e.g. renewable energy, battery technology.

DIGITAL REVOLUTION

Growing demand for data and access to digital communication networks e.g. data centres, fibre networks.

GREENFIELD

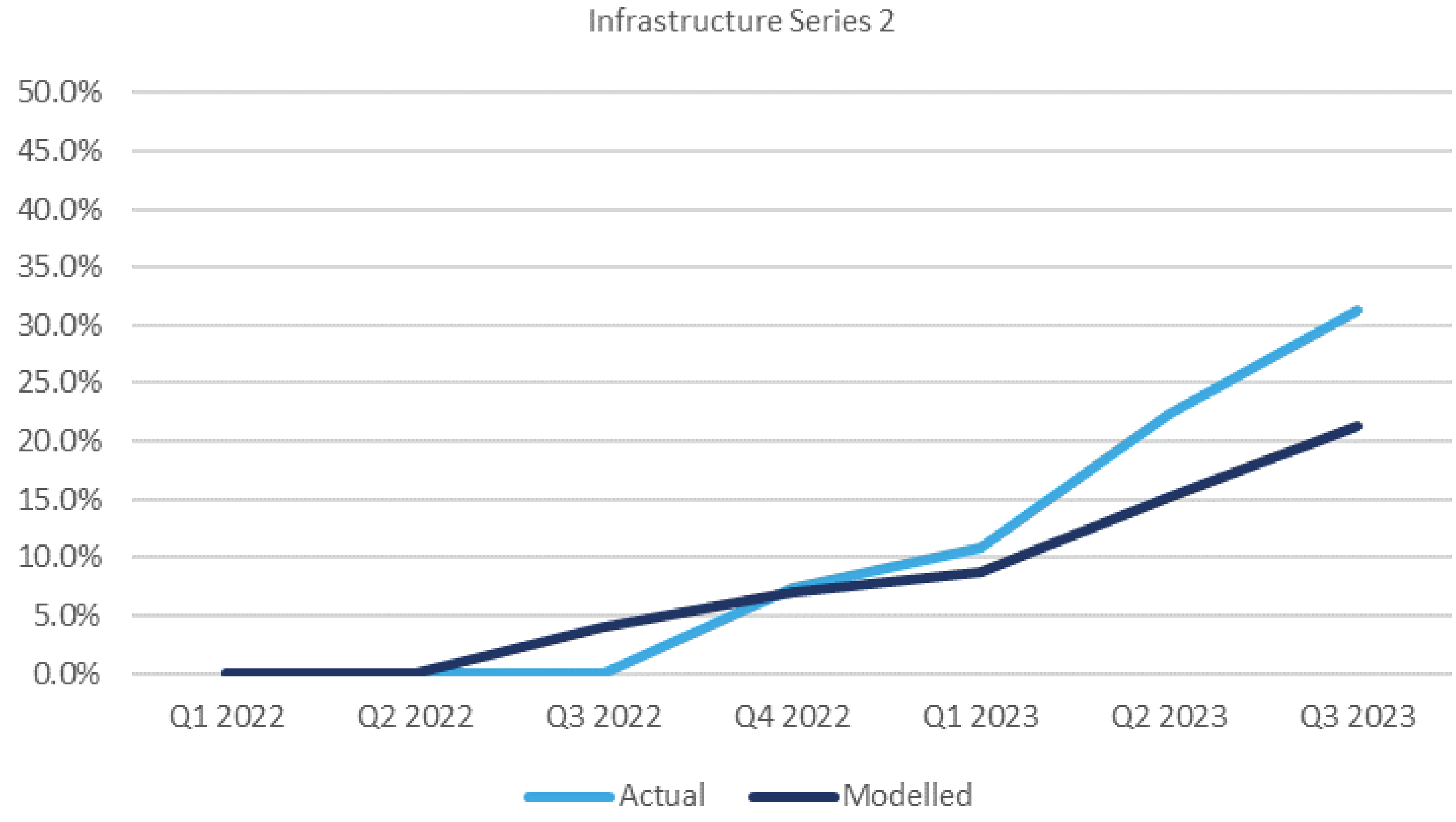
Capture additional returns from development/extension opportunities whilst demonstrating strong risk mitigation techniques.

EMERGING MARKETS

Stronger economic growth and longer term demographics driving demand for infrastructure in less developed markets subject to a suitable risk premium.

INFRASTRUCTURE SERIES 2

DRAWDOWN RATES



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ENTIRE SERIES DRAWDOWN AS A PERCENTAGE OF TOTAL COMMITMENTS

SOURCE: ALBOURNE

CLIMATE OPPORTUNITIES: TARGET STRATEGIES

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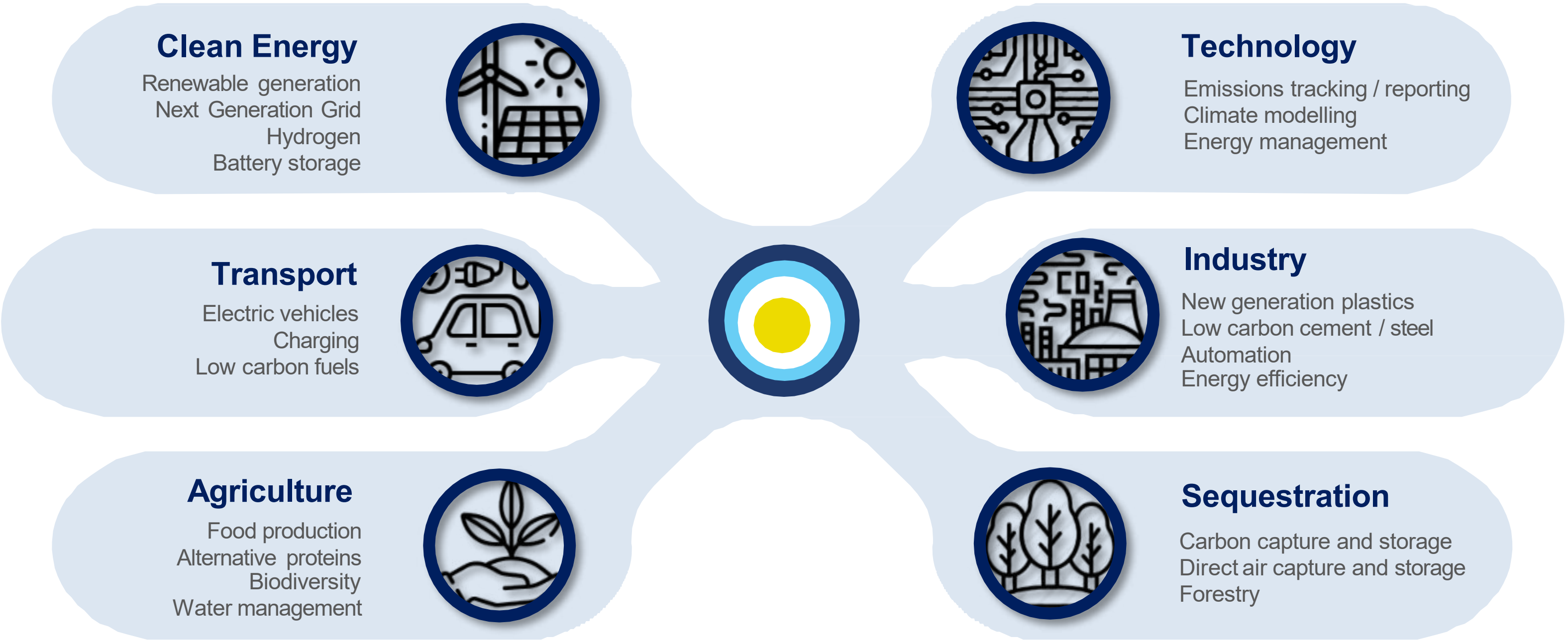
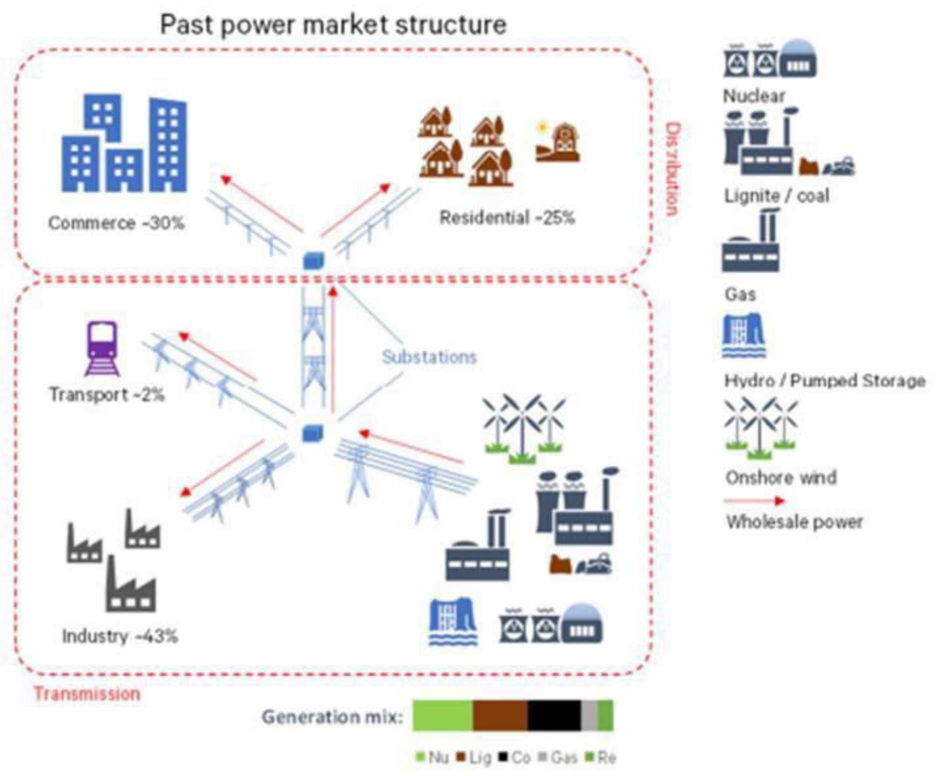


Source: Icons from Flaticon.com

CLIMATE OPPORTUNITIES

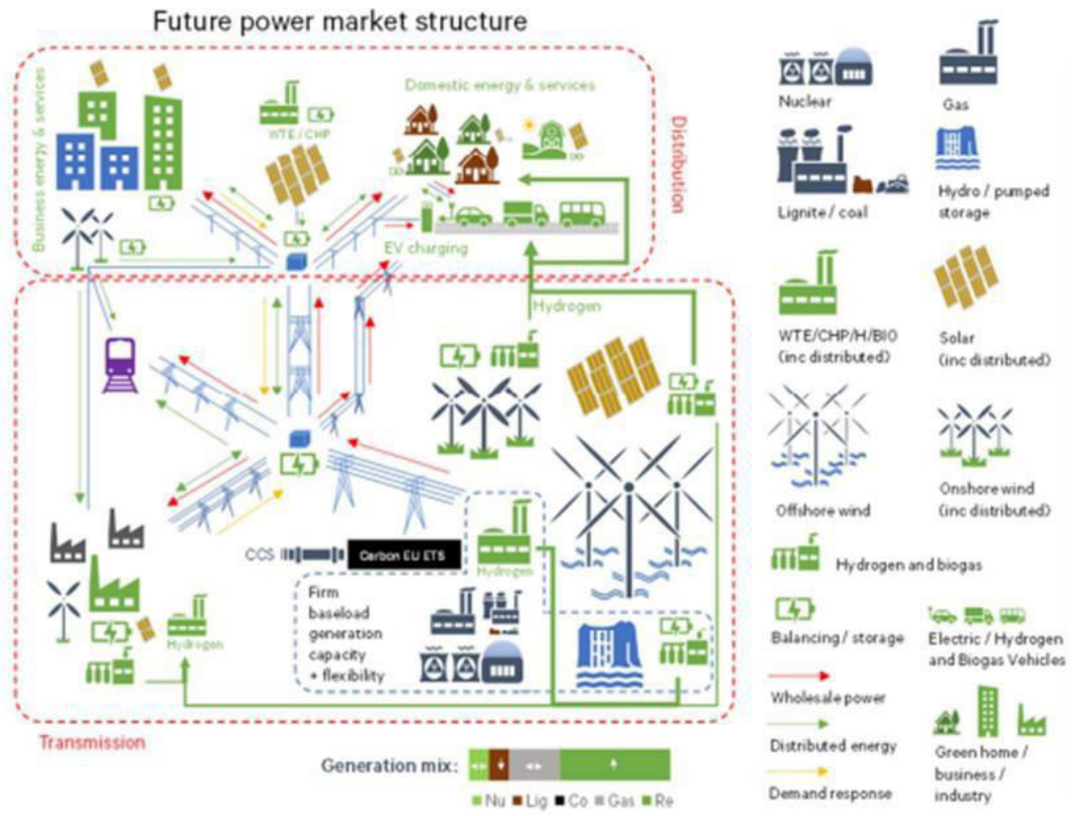
RENEWABLES & ENERGY TRANSITION FOCUSED REAL ASSET STRATEGIES

Past power market structure



Source: BloombergNEF, Berenberg

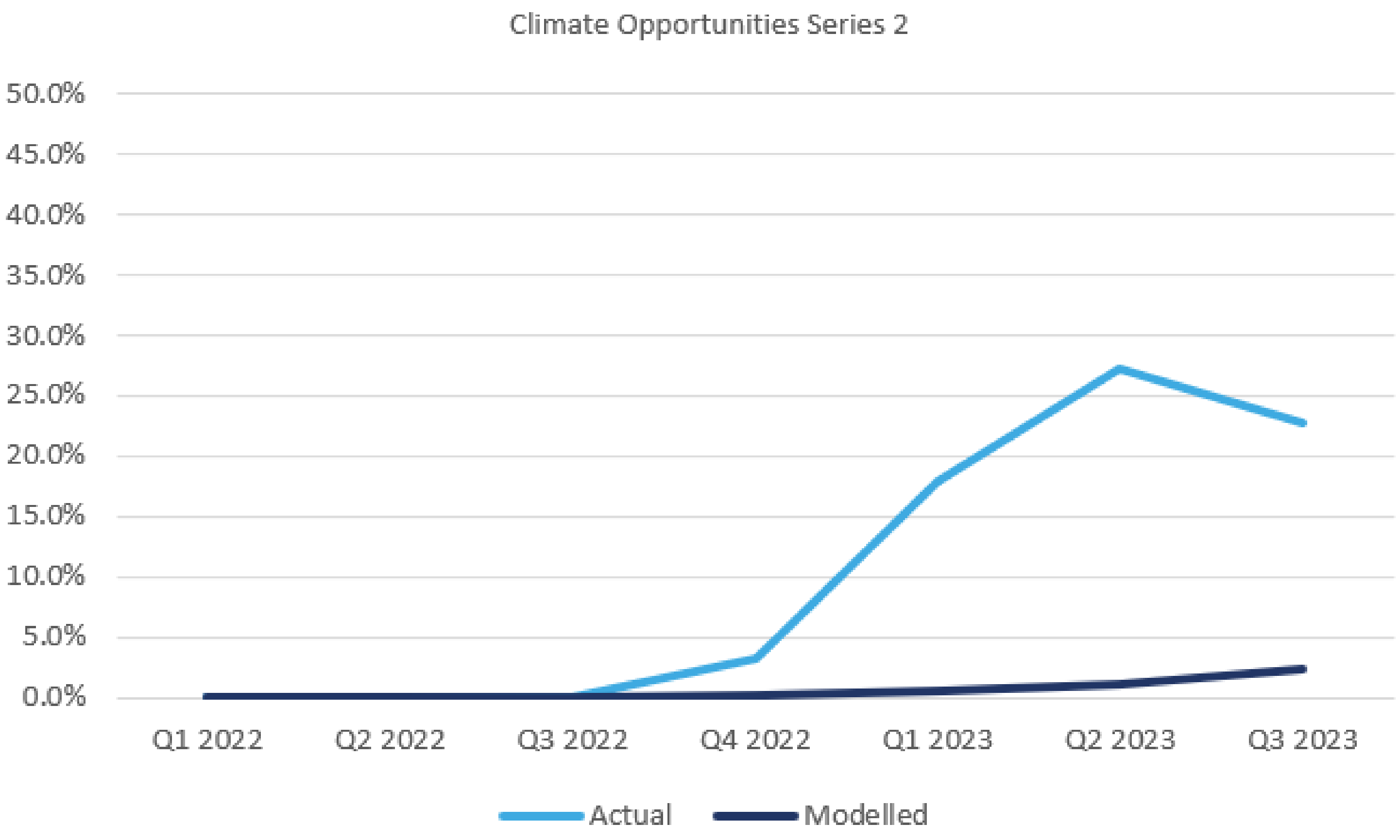
Future power market structure



Source: BloombergNEF, Berenberg

CLIMATE OPPORTUNITIES

DRAWDOWN RATES



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ENTIRE SERIES DRAWDOWN AS A PERCENTAGE OF TOTAL COMMITMENTS

SOURCE: ALBOURNE

ALTERNATIVES

UK OPPORTUNITIES

TARGET STRATEGIES

UK Opportunities could deliver investment in the following strategies:

Housing
Social
Affordable
Co-ownership
Aged care

Property
Regeneration
Industrial
Logistics

Infrastructure
EV charging
Social
Digital

Corporate Financing
Growth Capital
SME Lending

Social Bonds

Renewables
Small scale solar
Biomass
Waste to energy

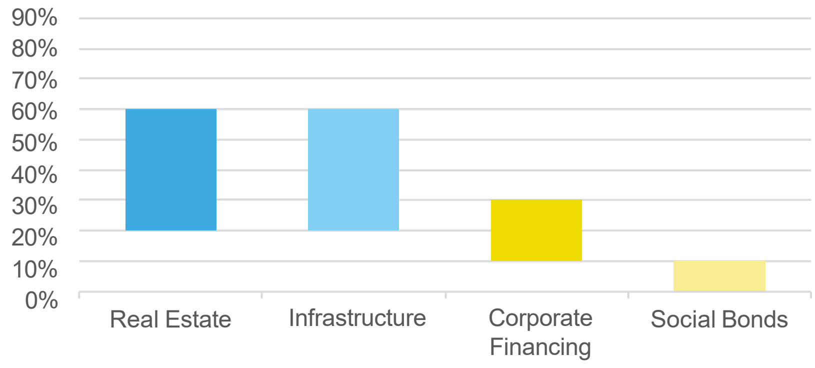
UK OPPORTUNITIES: ASSET ALLOCATION

Strategy	Permitted range
Real Estate (Housing & Property)	20 – 60%
Infrastructure (incl. Renewables)	20 – 60%
Corporate Financing (PE & PC)	10 – 30%
Social Bonds	0 – 10%

Geography	Permitted range
UK	100%

Absolute Return Benchmark	8% p.a. (net)

Hard Cap	£1.0bn



- **UK strategy**
- **No regional limits**
- **Tilt to Border to Coast region where possible, but no minimum exposure guaranteed**

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

PENSION FUND COMMITTEE REPORT

13 DECEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

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 Peter Moon and William Bourne 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

Investment report for Teesside Pension Fund
December 2023

Political and economic outlook

In the UK the Chancellor's autumn statement signalled the start of the election race by reducing National Insurance and putting more money in people's pockets. Unfortunately this means that non-protected government department budgets will be cut by about £19 billion over the next three years. This demonstrates just how little room for manoeuvre the Chancellor had as he relies on fiscal drag to replenish the coffers. With falling growth rates and very little growth in prospect over the next few years the Chancellor is relying on inflation and frozen tax thresholds to get himself out of the bind he finds himself in. As things stand the Chancellor will have no room for manoeuvre in the spring budget and the Conservative Party will go into the next election with the public paying the highest level of taxes for well over 70 years with the prospect of them rising to the highest ever level by 2027.

The covid inquiry has not been comfortable for the government and any kudos they have tried to claim in the past is looking rather hollow now. Boris Johnson and Matt Hancock might still have a chance to redeem the situation when they appear before the inquiry. The road to the next election is not quite as smooth as the government might have hoped. Furthermore the recent announcement by the Bank of England that interest rates would stay high for the foreseeable future hasn't helped the situation any. If the governor is serious in his ambition to get inflation back to the 2% level there might be no growth in the economy for some considerable time and the very real potential to fall into recession.

The International political situation remains extremely tender with the number of conflicts on the increase. With Trump looking as if he could return to the White House the prospects for any improvement are looking more and more remote. In the shorter term China and U.S relations appear to be on an upward trend which can only be good news. However this is likely to be just a short term improvement in the long term declining fortunes of the Western economies, at least until we get a better quality of leader in democracies.

Markets

The 10 year US treasury market has remained pretty stable over the last three months with yields basically unchanged at 4.3%. The 10-year UK gilt yield has fallen by about 20 basis points to 4.2%. Over the same period U.S CPI has moved from 3.7% to 3.2% and UK CPI from 6.7% to 4.6%. Effectively this means the US treasuries are now giving a real yield of north of 1% and British gilts continue to trade in negative real yield territory.
The real return on these debt markets appears to be inadequate given the countries have gross debt to GDP ratios of 123% and 100% respectively. These anomalously low real interest rates should eventually return to more sustainable levels of 2% or so. Index linked securities will suffer when this shift occurs and capital values will fall. Corporate bonds are likely to underperform in the environment of falling government bond prices.
Equity markets have been relatively quiet over the past three months with the US and German market up a little and the UK and wider European markets falling marginally. The high levels of uncertainty both politically and economically are having a negative impact on equity markets. However valuation levels in most markets are not particularly demanding.
With the peak of inflation having been reached the property market should be able to make reasonable progress and give positive returns over the medium term. As always the caveat of good covenants and good properties remain as the drivers of individual property performance.
The divergence of investment opportunities in private markets should make it easier to pick outperforming strategies, however the higher interest rate environment and lack of new capital has made it a difficult time for

these markets. With interest rates hopefully at a peak and modestly falling inflation the more difficult times in these markets are probably now over. With cash returns of around 5% it is no longer a drain on returns however it is still not a preferred investment .

Portfolio recommendation

Despite the modest real yields available on the US treasuries in general fixed interest markets those conventional and index linked continue to look poor value. Although clearly the U.S market looks much better value than most other fixed interest markets.
Quoted equities look better value than fixed interest markets . Despite the improving environment for private investment there is currently some embedded overvaluation which is likely to pull back any performance in the medium term.
I continue to be favourably disposed to property investment due to its imperfect nature and the ability to cherry pick investments.
Despite being on an improving trend the returns on cash still make it fit only to be a facilitator for changes in asset allocation.

Peter Moon
29 November 2023

Independent Adviser's Report for Teesside Pension Fund Committee

William Bourne **4th December 2023**

Market Commentary

1. Three months ago I wrote that inflation was declining and that interest rates would remain high. I was braced for some market volatility, especially in currency markets, but I thought the environment was relatively benign for risk assets such as equities. There has been less volatility than I expected, though both the US$ and the Japanese yen have been the subject of some speculation.

2. Inflation continues to fall in most of the world but remains above the 2% level which many central banks target. The latest data points were 3.2% in the U.S., 4.3% in Europe% and 4.6% in the U.K. The numbers are dramatically lower than a year ago, but the conflicts in the Middle East and (on-going) in Ukraine may lead to slower reductions in the future than the market seems to expect.

3. The European Central Bank raised interest rates during the quarter to 4.5%, but for the time being most central banks have paused their programmes of rate rises. However, central banks, at least in the West, are likely to err on the side of caution, and I do not expect any cuts imminently.

4. Another reason why interest rates are unlikely to fall is that U.S. economic growth in the 3rd quarter (annualized) came in at 5.2%, well above expectations. Non-farm payrolls (i.e., employment) were also higher. Consumption was robust, but the key driver seems to have been exports and inventory restocking. Other countries do not seem to have participated in the same way, and some surveys and indicators suggest that the GDP data overstates the U.S. recovery.

5. U.S. and bond yields rose to a level of around 4.5% but have since fallen back. The yield curve inversion I noted last time have reduced from nearly 100bps[1] to around 35bps. Any inversion is still a recession indicator which cannot be ignored, but the reduction suggests a degree of normalisation.

[1] Bps = basis points or 0.01 of a %, so 35bps = 0.35%

6. In Japan the Bank of Japan has indicated it will allow 10-year yields to rise above 1% and signalled an end to its policy of using its balance sheet to control the yield curve. In my view this is a victory for market forces, showing that the authorities cannot repress bond yields indefinitely. The implication is that bond yields generally will rise further to reflect western governments' worsening debt problems.

7. Higher bond yields create higher debt service costs for governments. The U.S. must finance or refinance around one third of its total stock of debt, or $11 trillion, over the next fifteen months. Much of this is likely to be at substantially higher rates than what was in place previously. The U.S. Fed. seems to be reacting by relying more on short-term bills and less on long-term bond issuance.

8. China, now the engine of growth for much of the world, showed some recovery. Another large real estate developer, Country Garden, missed a bond payment. Despite the problems in the real estate sector, year-on-year growth is at a similar level to the U.S (albeit lower than historically).

9. Over the last twelve months, equity market index performance has varied considerably. Japan has risen by 21%, while the U.K. has fallen by 1% and China by 4%. Allowing for currency movements, the numbers are closer. In sterling terms, for example, Japan has risen by 9%, the U.S. by 10%, and China by 1%. Leadership has been narrow, with the large tech companies responsible for most of the index gains, and most active managers have underperformed the indices. Equity strategies focusing on climate change have generally done particularly badly.

10. Infrastructure, which is considered a good match for pension fund liabilities, has performed poorly in the last six months. There are specific concerns over the future profitability of renewable energy, as is evidenced by the Danish company, Orsted, cancelling two major U.S. offshore wind projects. More generally the realisation that interest rates and bond yields are going to stay higher for longer has hit valuations of future income streams. This can be seen across long duration assets, but perhaps because of its very long-term nature infrastructure has been worst hit.

11. Geo-politics and politics remain a source of risk. While the increasing number of military confrontations may not directly affect markets, they contribute to greater uncertainty. At the same time the next U.S. election is looming, which makes it even less likely that the current (or future) administration will take the fiscal actions necessary to cope with the ever-increasing budget deficit.

12. I remain braced for more volatility in markets. The gold price has reached an all-time high well above $2000 per ounce. I am not predicting a recession, but it remains a distinct possibility. The risk of global conflict has increased a couple of notches. And the U.S. (and U.K.) elections may lead to sharp changes in policy.

Agenda Item 9

CBRE

TEESSIDE PENSION FUND Q3 2023

Quarterly Report
Prepared: 29th November 2023

Fund Objectives

Teesside Pension Fund's primary objective is to create a sustainable income stream to match its long term pension liabilities. This is achieved through investing in a wide range of asset classes, of which Real Estate is one.

The objective of the direct property allocation is to create a portfolio which produces a consistent total return, over the long term, to meet Teesside Pension Fund's liabilities.

Portfolio Strategy

The portfolio will hold core and core plus properties, over the long term, diversifying the portfolio through different property types, unit sizes, occupier businesses, income expiry and geographical regions.

Stock selection will be favoured over a default asset allocation bias, with a focus on maintaining a long term overweighted position in industrial and retail, alongside an underweight position in offices.

We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio, as well as diversifying the lease expiry profile.

Individual assets will be well suited to the current occupational market, whilst offering future flexibility. Properties will be leased to good quality businesses on institutional lease terms together with some index-linked assets.

Responsible Investment

In line with Teesside Pension Fund's Responsible Investment Policy, CBRE considers Environmental, Social and Governance issues (otherwise known as ESG criteria) as part of its decision making process.

Executive Summary

As at 30th September 2023, the portfolio comprised 34 mixed-use properties located throughout the UK, with a combined value of £487.5m. This reflects an overall Net Initial Yield of 5.46%, and an Equivalent Yield of 5.59%.

The portfolio comprises principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprise 94% of the Portfolio by capital value. There are 92 demises and a total net lettable area of 2,752,119 sq ft.

The portfolio has a current gross passing rent of £28,460,734 per annum against a gross market rent of £27,339,662 per annum.

The weighted average unexpired term is 9.7 years to the earlier of the first break or expiry, and 10.3 years to expiry, ignoring break dates.

Fund Summary

Total Pension Fund Value (June 2023)	**£5,051m**
Real Estate Weighting (long term target allocation)	9.7% (10%)
Direct Portfolio Value (September 2023)	£487.5m

Direct Portfolio

Direct Portfolio Value (September 2023)	£487.5m
Number of Holdings	34
Average Lot Size	£14.3m
Number of Demises	92
Void rate (% of ERV) (Estimated UK Benchmark)	0.6% (7.0% – 9.0%)
WAULT to Expiry (break)	10.3 years (9.7 years)
Current Gross Passing Rent (Per Annum)	£28,460,734
Current Gross Market Rent (Per Annum)	£27,339,662
Net Initial Yield	5.46%
Reversionary Yield	5.50%
Equivalent Yield	5.59%

Portfolio Highlight (Q3 2023) – Washington

The Fund has completed the purchase of an Industrial unit located in Washington, Tyne & Wear, let to BAE Systems Ltd. The property totals 346,465 sq ft and is let for an average unexpired term of 12.25 years. Acquired for £50.25m reflecting 6.82% NIY.

teesside pension fund

UK Economic Commentary

- Monthly real GDP grew by 0.2% in September, bolstered by strong growth in the services sector. However, GDP showed no growth in the three months to September.
- Headline CPI grew 4.6% over the year to October, down from 6.7% in September and has decreased 550bps since the start of the year. This fall in inflation is largely as a result of lower energy prices in comparison to September 2022.
- Core CPI grew 5.7% in the 12 months to October and is proving sticky due to high wage growth and subsequent high services inflation.
- Unemployment remained at 4.2% for July to September as vacancies fell for the 16th consecutive month to the lowest levels since July 2021. Nominal wages continued to rise at a rate of 7.9%, but thanks to falling inflation, real wages recorded their second month of growth at 1.1%. We expect unemployment will peak at 4.7% at the end of 2024.
- Despite falling inflation, households' incomes remain squeezed due to high mortgage costs. Retail sales fell by 1.1% in the three months leading up to October and remain well below the pre-pandemic trend growth rate.
- The Bank of England paused in November for the second time in 15 meetings, leaving the Base Rate at 5.25%.
- Our Outlook expects inflation will reach the Bank's 2% target by early 2025. Households will subsequently have their purchasing power restored and as real wages recover, consumer spending will increase.
- We expect the Base Rate may have peaked, although given the Bank's reactivity in recent months, any adverse shocks could cause another 25bps hike. Nevertheless, we forecast the Bank to begin cutting rates in H2 2024, reducing debt costs for both businesses and households, and bolstering economic activity.
- Rising mortgage costs remain a burden for many households and this will continue with more than 1 million mortgages due to refinance before 2024 facing 350-400bps increase in rates, providing a significant drag on the economy.
- We forecast GDP growth will be flat in 2023 and grow 0.4% and 1.7% in 2024 and 2025 respectively. The main risk to this outlook is the path of inflation. Sticky inflation could cause a higher base rate peak or necessitate rates stay higher for longer, dampening the growth outlook and economic recovery.

UK Real Estate Market Commentary

- Investment activity remains subdued in the wake of rising interest rates and the downturn in capital values. Our initial estimate of total transaction volume for Q3 2023 is £6.7bn. This is well below our revised total for Q2 of £11.1bn.
- After recovering somewhat last quarter, cross-border investment declined again in Q3 to account for only £2.4bn of the £6.7bn total traded. As in Q2, North American investors provided the largest share of cross-border capital (£1bn), followed by European investors (£0.5bn). Volumes were down across all sectors, but with marked quarter-on-quarter declines for the office and retail sectors and moderate declines in the industrial and residential sectors. Residential had the highest share of volumes at £1.7bn (25%), followed by office and industrial each at £1.5bn (22-23%).
- We have yet to see any material improvement in investment activity, not helped by continued uncertainty in the economic and geopolitical environment, while high costs of debt and refinancing challenges continue to impact on leveraged investors.
- The quarterly total return for All UK Property in Q3 2023 was 0.3%** This was largely driven by income return, as capital values remained flat. Industrial total returns were 2.2% (0.9%* capital return, 1.2%* income return), retail total returns were -0.2% (-1.9% capital return, 1.8% income return) and office total returns were -2.2% (-3.4% capital return, 1.4% income return).
- Rental values for All UK Property increased by 0.9% in Q3. The industrial sector posted the highest rental growth for the quarter with 1.6%, while office rental values increased by 0.6%. Retail rental value growth was 0.3% for the quarter.
- All Property yields increased by 11bps throughout Q3 2023, meaning yields have increased by 21bps so far in 2023. The larger increase in yields in Q3 can be seen by the 1.1% decline in capital values. However, capital values have only decreased by 1.4% throughout 2023.

* Return figures will not always sum due to the use of compounding calculations over an annual horizon

** Based on CBRE Monthly Index, all property total returns to September 2023

Investments

Sales

No sales this period.

Acquisitions

The Fund has completed the purchase of an Industrial unit located in Washington, Tyne and Wear, let to BAE Systems Ltd. The property totals 346,465 sq ft and is let for an average unexpired term of 12.25 years. Acquired for £50.25m reflecting 6.82% NIY

In Q2 2021 the Fund forward funded the development of a 210,000 sq ft industrial unit in Yeovil. The development of the property is now complete and has been added to the Direct Portfolio. The unit is occupied by Leonardo UK Ltd, for a term of 35 years at a rent of £1.6m p.a., subject to annual reviews at 2.7%.

Direct Portfolio Analysis

Top Ten Holdings (by Capital Value)

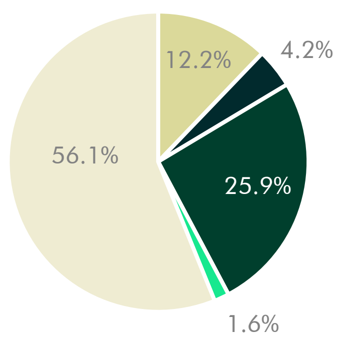
No.	Asset	Sector	Value	% of Direct Portfolio
1	WASHINGTON - Radial 64	Industrial	£50,250,000	10.3%
2	THORNE - Capitol Park	Industrial	£31,300,000	6.4%
3	SWINDON - Symmetry Park	Industrial	£31,150,000	6.4%
4	LONDON - Long Acre	High Street Retail	£31,000,000	6.4%
5	ST ALBANS - Griffiths Retail Park	Retail Warehouse	£30,500,000	6.3%
6	YEOVIL - Lysander Road	Industrial	£27,750,000	5.7%
7	BIRMINGHAM - Bromford Central	Industrial	£21,050,000	4.3%
8	GATESHEAD - Team Valley	Industrial	£20,100,000	4.1%
9	TONBRIDGE - Tonbridge Retail Park	Retail Warehouse	£19,650,000	4.0%
10	PARK ROYAL - Minerva Road	Industrial	£19,500,000	4.0%
		Total	**£282,250,000**	**57.9%**

We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio, as well as diversifying the lease expiry profile.

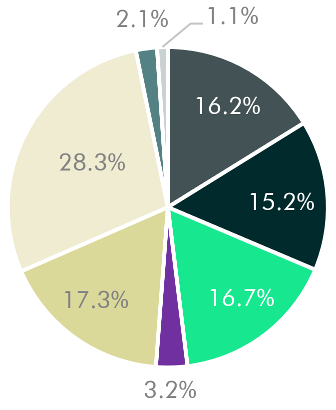
In addition to recommendations on industrial purchases, we may also recommend alternative and long-let investments that offer good covenants, attractive yields and long unexpired terms; these may include hotels, car showrooms, healthcare, leisure, supermarkets and student housing.

Set against a backdrop of low economic growth, we will seek to make purchases where both occupational and investment supply and demand conditions are positive. This should ensure that purchases are accretive to the portfolio's performance.

Sector Allocation (by Capital Value)



Geographical Allocation (by Capital Value)



Direct Portfolio Analysis (continued)

Top Ten Tenants (by Contracted Income)

The Portfolio currently has 92 different demises let to 69 tenants. The largest tenant is BAE Systems Limited which accounts for 13.1% of the annual contracted income. Experian currently lists BAE Systems as representing a "Very Low Risk" of business failure.

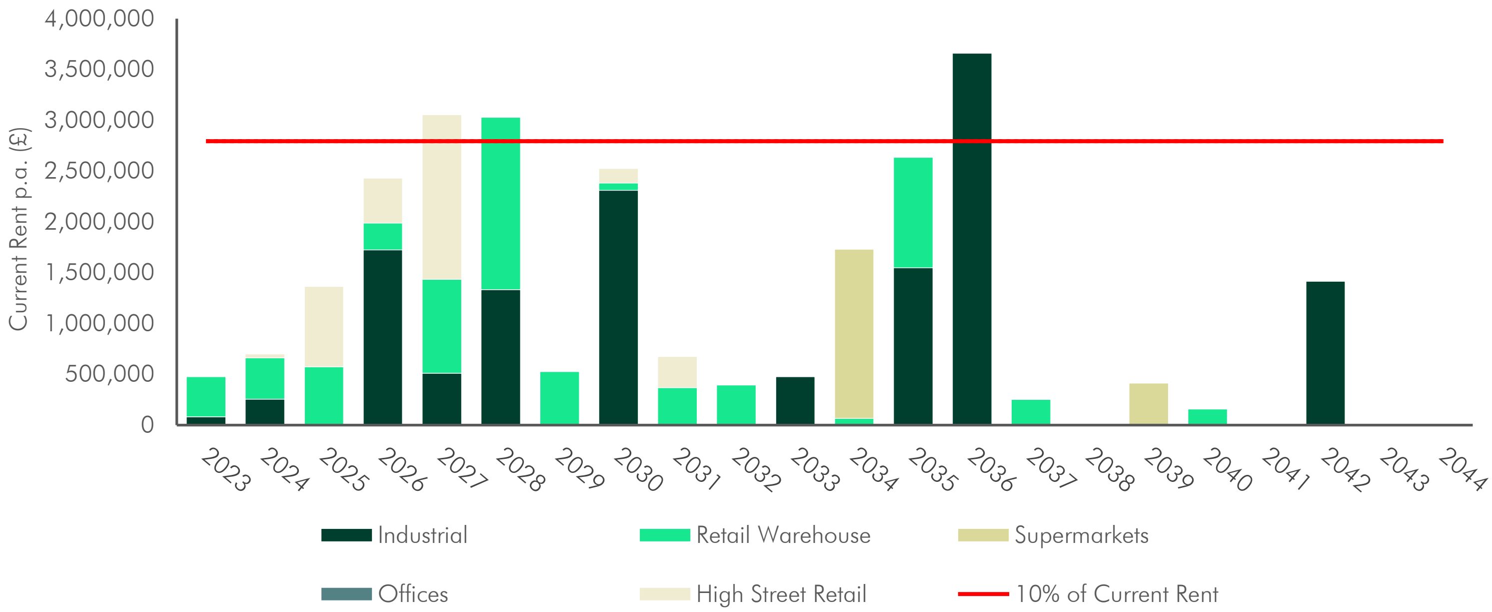
As a significant portion of the portfolio income will be from the top ten tenants, we will monitor their covenant strength and flag any potential issues. Our most recent assessment shows all of these tenants are classed as having a "Very Low Risk" of business failure.

Top Ten Tenants (by Contracted Rent)

#	Tenant	Sector	Number of Leases	Contracted Rent p.a.	% of Portfolio Rent	Risk Rating (Experian)
1	BAE Systems Ltd	Industrial	1	£3,658,230	13.1%	Very Low Risk
2	B&Q Plc	Retail	3	£2,084,211	7.5%	Very Low Risk
3	Iceland Food Limited	Industrial / Retail	2	£1,798,211	6.4%	Very Low Risk
4	Leonardo UK Ltd	Industrial	1	£1,609,659	5.8%	Very Low Risk
5	Zara UK Limited	Retail	2	£1,580,000	5.7%	Very Low Risk
6	Omega Plc	Industrial	1	£1,413,689	5.1%	Very Low Risk
7	Brunel Healthcare	Industrial	1	£1,105,901	4.0%	Very Low Risk
8	Unipart Logistics Limited	Industrial	1	£1,077,000	3.9%	Very Low Risk
9	Royal Mail Group Limited	Industrial	1	£1,074,000	3.8%	Very Low Risk
10	Libra Textiles Ltd	Retail	1	£850,000	3.0%	Very Low Risk
			Total	£16,250,901	58.3%	

Key Lease Expiries / Income Risk

There is a focus to mitigate against lease expiry risk, by either purchasing properties where the lease expiry profile does not match that of the portfolio or through active asset management. The graph below identifies the years where more than 10% of the portfolio income is due to expire.



Property Portfolio Returns

The below table demonstrates the Portfolio's return compared to a reference index over the past 1, 3 and 5 years. The CBRE Property Index* is provided for illustrative purposes only:

	1 Year Sep 22 - Sep 23			3 Year (p.a.) Sep 20 – Sep 23			5 Year (p.a.) Sep 18 – Sep 23		
	TPF	Index	Variance	TPF	Index	Variance	TPF	Index	Variance
Income Return	5.3%	5.5%	-0.2%	5.3%	5.3%	0.0%	5.5%	5.4%	+0.1%
Capital Return	-9.9%	-15.8%	+5.9%	4.5%	-0.9%	+5.4%	0.3%	-2.9%	+3.2%
Total Return	-4.8%	-11.1%	+6.3%	10.1%	4.4%	+5.7%	5.9%	2.3%	+3.6%

* Note that the CBRE Property Index is not the performance benchmark for the Portfolio.

Investment Management Update

We continue to seek long-let institutional stock in a range of sectors, primarily industrial, retail warehousing and supermarket sectors to deliver the secure index-linked income streams identified within the Fund's strategy. The Fund's requirement is regularly articulated to the investment market and we receive a substantial number of investment opportunities each week.

Asset Management Update

Ipswich, Currys Group – November 2023

The Fund has completed a Lease renewal with Currys Group for a term of 10-years at a rent of £312,500 p.a., reflecting £12.50 psf. The tenant will benefit from 21 months' rent free from the Lease commencement date.

Old Brompton Road, Cancer Research – November 2023

The Fund has completed a Lease renewal with Cancer Research for a term of 10-years at £416,000 p.a., reflecting £43.75 psf, a 12% increase on the passing rent of the unit. The rent is reviewed on the 5th anniversary of the Lease in-line with RPI collared and capped at 2% and 4%. The tenant benefits from an initial 12 months' rent free on the Lease commencement date, plus 6 months' in lieu of Landlord works. There is a break option on the 5th anniversary of the Lease. The Fund simultaneously agreed a Licence for Alteration, permitting the tenant to undertake a comprehensive refurbishment of the office at its own cost.

Stow-on-the-Wold, Tesco – November 2023

The Fund has completed the September 2023 inflation-linked rent review with Tesco, increasing the passing rent by 5% to £813,450 p.a., in line with the RPI provision in the Lease.

Direct Property Portfolio - EPCs – November 2023

The Fund has completed a strategic review of asset Energy Performance Certificates (EPCs) across its Portfolio. All assets within the Portfolio now have an EPC rating that complies with current, and incoming regulations in 2025.

Washington, BAE – September 2023

The Fund acquired this asset in Q3 2023. The Fund has begun its post-acquisition Asset Management Strategy, agreeing terms to re-gear and extend the Lease with BAE, creating a 19-year term, in exchange for 3 months' rent free.

Portfolio Arrears Update – 24th November 2023

The below table details the collection statistics for Q3 2023. Rent due for the quarter totalled £5,755,658 of which £5,720,157 has been collected, reflecting a difference of £35,501.

Collection Milestones	Rent Due 29/09/2023	Quarter Date 29/09/2023	Week 1 06/10/2023	Week 2 13/10/2023	Week 3 20/10/2023	Week 4 27/10/2023	After 27/10/2023	Difference
Total (£)	5,755,658	4,171,184	1,108,476	154,138	142,200	22,969	121,191	35,501
Collection Target (%)			92.0%	96.0%	98.0%	99.0%		
Total Collections (%)		72.5%	91.7%	94.4%	96.9%	97.3%	99.4%	

The rent collection across the entire portfolio in the previous three quarters has reflected the following.
June 2023 – 100%
March 2023 – 99.7%
December 2022 – 100.0%

The total Collectable Arrears on the entire portfolio is £362,542 as at 24th November 2023.

The Collectable Arrears exclude the following:
- Tenants that have overall credit balances on their accounts
- Tenants with recent charges raised within the last month

Below, is a summary of the tenants that have arrears in excess of £5,000. These nine tenants account for 92.1% (£333,945) of the total collectable arrears:

B&Q plc (St Albans) – Total arrears of £131,181 (36.2% of the collectable arrears). These arrears relate to the third monthly instalment of the September quarter rent (expected on 1st December) and two quarters' unpaid service charge.

Iceland Foods Limited (Swindon) – Total arrears of £74,534 (20.6% of the collectable arrears). This relates mainly to the annual insurance premium, where the tenant has disputed the level of the insurer's commission.

Shoe Zone Retail Limited (Congleton) – Total arrears of £36,506 (10.1% of the collectable arrears). This Lease was recently renewed. This relates to the reconciliation between the old and new lease. The ongoing reconciliation will halve the arrears and enable the Fund to collect the balance.

Pizza Hut (UK) Limited (Ipswich) – Total arrears of £30,332 (8.4% of the collectable arrears). Current rents are being paid and this relates to the period of insolvency. We had a call with Pizza Hut this week and they are very close to agreeing on the final account reconciliation. Once agreed, the account will be paid in full.

B&Q plc (Arbroath) – Total arrears of £26,553 (7.3% of the collectable arrears). This relates solely to service charge arrears. A Measured Survey has now been completed, which has been provided to B&Q and progress is being made to resolve issues.

Boots UK Limited (Congleton) – Total arrears of £9,892 (2.7% of collectable arrears). This mainly relates to a historic rent on their old lease. We are working with Boots to resolve this.

River Island Fashion Limited (Lincoln) – Total arrears of £8,969 (2.5% of collectable arrears). This relates mainly to historic arrears that were misallocated. The tenant has paid this sum, and the allocation is being corrected.

American Dry Cleaning Company Limited (17/23 Gloucester Road) – Total arrears of £8,408 (2.3% of the collectable arrears). The tenant has cleared old charges, this relates to the balance of the September 2023 rent.

Hobbycraft Trading Limited (Cirencester) – Total arrears of £7,569 (2.1% of the collectable arrears). These arrears relate solely to the third monthly instalment of the September Quarter's rent.

The remaining 7.9% of collectable arrears (£28,598) is spread across 23 tenants, ranging from £4,453 to £12.93.

Lending Update

Debt Investment Portfolio	Sector	Loan Limit	Drawn Balance	Interest Rate	Fully Drawn Income p.a.	Maturity	LTV	ICR
Chester Greyhound	Retail	£19.7m	£19.7m	3.70%	£0.73m	Nov-2025	60.6%	3.33x
St Arthur Homes	Affordable Housing	£16.0m	£11.3m	4.50%	£0.72m	Nov-2026	55.0%	1.38x
Preston East	Industrial & Logistics	£16.2m	£6.4m	5.21%	£1.50m	Jun-2027	56.0%	1.78x
TOTAL CURRENT		**£51.9m**	**£37.4m**	**4.06%**	**£2.95m**		**57.0%**[1]	**2.25x**[1]

[1] Portfolio LTV and ICR assume the St Arthur Loan is fully drawn at 55.0% LTV (maximum permissible gearing)

As at 30 November 2023, the Fund had three committed loans, of which £37.4m of £51.9m combined limits was drawn. These loans will produce a blended return of 4.06% once St Arthur and Preston East are fully drawn.

We are continuing to target good quality investment lending opportunities for the Fund across all sectors and UK geographies. As previously discussed, rising interest rates have created the opportunity to target loans at the lowest risk end of the market. This has been evidenced by the completion of the Preston East loan in July, secured at a 5.21% rate and 56% LTV against new build, best in class industrial assets with long leases to high quality tenants.

Further rates growth since the Preston terms were agreed has led us to now target returns at or above 6.0%, although we continue to react to market movements and our primary focus is on asset / sponsor quality, over opportunistic returns.

In light of the favourable conditions and the tendency of the higher quality opportunities to be at larger ticket sizes, we are also exploring loans up to £45m, but maintaining Loan to Value ratios of 45-60% and adjusting return targets as set out above.

Existing Loan Portfolio

- All existing loans are performing in line with their loan agreements. All are covenant compliant and all interest and amortisation payments have been made on time.
- Chester Greyhound: A £20.0m senior loan to fund Aprirose's acquisition of Greyhound Retail Park, Chester. Ongoing scheduled amortisation has de-levered the loan to £19.7m since completion. In the period, Unit 2B has been regeared with ScS taking a new 10 year term (previously holding over) at £203,965 p.a.
- St Arthur Homes: A £16.0m loan to support the refinance of a 178-unit shared ownership portfolio. As at 30 June, three drawdowns totalling £11.3m had taken place. The fourth took place in August and the final drawdown is anticipated in November / December. An updated valuation from JLL to size the final drawdown will be instructed shortly.
- Preston East: A £16.2m loan secured against 3x long-let, Grade A logistics units near Preston. It drew down in August.

Greyhound Retail Park, Chester


St Arthur Homes - Chapel Riverside, Southampton (24 units)

Responsible Investment Initiatives

Environmental, Social and Governance (ESG) criteria are having an increasingly prominent role in investment decision-making and will influence the attractiveness of investments going forward. CBRE will ensure that responsible investment is put at the forefront of the strategy and that ESG factors are considered within each investment and asset management initiative. This will help ensure that the investment portfolio remains resilient over the long term.

We have summarised the relevance of each of the ESG factors below. These will be expanded upon with portfolio-level principles and asset-specific initiatives as the importance of ESG grows.

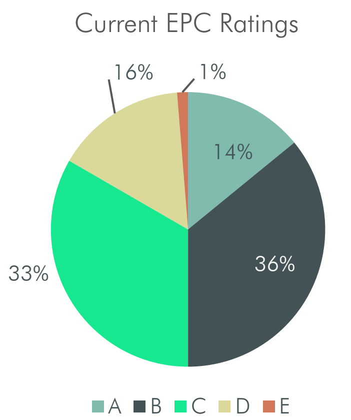
Environmental – sustainable factors will continue to play a part in the definition of 'prime' real estate, and buildings that don't meet the increasingly competitive standards are likely to become obsolete faster. Occupiers will demand their buildings adhere to the highest environmental standards.

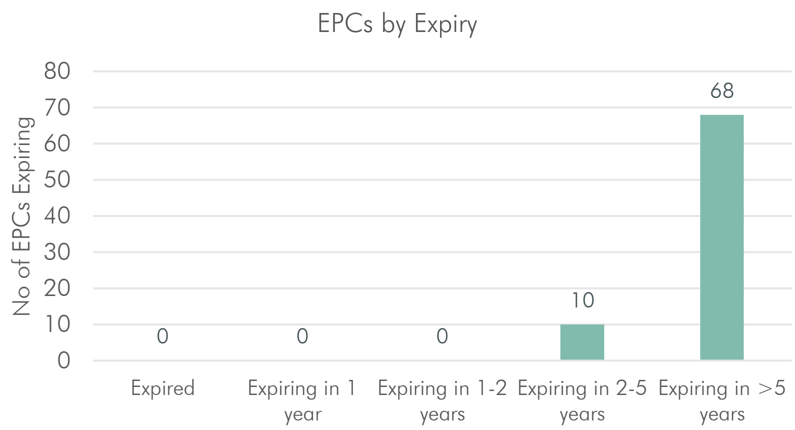
Social - real estate's impact on the local community and on a company's workforce are becoming equally important. Buildings that contribute positively to the world are therefore likely to be more resilient than those that do not, and as such are likely to benefit from increased occupier demand, leading to future rental and capital growth.

Governance - market participants will increasingly question the governance and management practices of their partners and supply chain. Rigorous standards will mean businesses will need to become more transparent and engage with their stakeholders to ensure access to the best opportunities.

Minimum Energy Efficiency Standards (MEES)

Teesside Pension Fund's property Portfolio currently complies with MEES regulation. The Fund has undertaken a strategic review of the Portfolio to ensure continued compliance with incoming regulation in 2025. Energy Performance Certificates (EPCs) are used to measure compliance. A breakdown of the current ratings and expiry profile across the Portfolio is detailed below:





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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 10

PENSION FUND COMMITTEE REPORT

13 DECEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

LGPS ‘Next Steps on Investment’ Consultation – Government Response

1. PURPOSE OF THE REPORT

1.1 The purpose of the report is to provide the Members of the Pension Fund Committee (the Committee) with details of the Government’s recently published response to a consultation exercise: “Local Government Pension Scheme (England and Wales): Next steps on investments” which indicates the Government’s proposed direction of travel in relation to investment pooling on the Local Government Pension Scheme (LGPS).

2. RECOMMENDATION

2.1 That the Committee notes this report and that any subsequent guidance in relation to LGPS investment pooling will be reported to future Committee meetings as it becomes available.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

4.1 In 2015 the Government published criteria and guidance on the pooling of LGPS assets. This guidance set out four criteria:

A. Asset pool(s) that achieve the benefits of scale (pools of at least £25 billion)
B. Strong governance and decision making (for example: appropriate resources, governance structures, reporting, collective policies on how environmental, social and governance issues are taken into account when investing)
C. Reduced costs and excellent value for money (reporting on fees, transition costs and savings, appropriate justification for using active management)
D. An improved capacity to invest in infrastructure

4.2 Once this guidance was published, LGPS administering authorities went through a process which eventually resulted in eight asset pools being set up across England

and Wales (Scotland was not covered by the pooling guidance). None of these pools are identical in structure or approach and the level of asset pooling that has actually taken place has varied between pools and between the constituent Pension Funds within those pools.

4.3. As the Board will be aware, the Pension Fund was one of twelve (now eleven following a fund merger) founder members of the Border to Coast Pensions Partnership (‘Border to Coast’). Border to Coast is acknowledged as one of the most successful of the eight pools, both in terms of the amount of assets that have been pooled and the strong positive relationships that exist between the pool members and with the pool company. Border to Coast and its Partner Funds has also largely delivered the original pooling objectives the government set out in 2015.

4.4 The government issued a consultation on next steps for LGPS investments in England and Wales earlier this year which looked to build and accelerate progress towards greater LGPS pooling. The stated objective of the consultation was to achieve pools in the £50-75 billion and possible £100 billion range and to do this by initially encouraging / requiring all LGPS funds to complete the pooling process with their current pool and then reducing the number of pools from eight to an unspecified lower number. The full text of the consultation document, along with a response on behalf of the Fund was presented to the 27 September 2023 Committee.

5. CONSULTATION OUTCOME

5.1 On 22 November 2023 the Government issued its response to the consultation, the final consultation outcome (enclosed as Appendix A), which confirmed that it would produce guidance and/or regulations to enact most of the changes proposed in the consultation document. The Government will progress its reform of the LGPS to accelerate and expand pooling, and to increase investment in levelling up and in private equity.

5.2 The consultation response sets out a number of expectations for LGPS Funds and Pools, the main outcomes are summarised in paragraph 9 of the document as follows:

“After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their Investment Strategy Statements (ISS) assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.

- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity."

5.3 The Government also confirms that pools should seek scale and should reduce in number in the medium to long term from the current 8 to probably around 4 or 5. This number is pools is implied in the document though reference to a Government Actuary's Department (GAD) projection that the LGPS in England and Wales could have assets of around £950 billion, at which point the expected pool size would be around £200 billion. The Government wishes to see greater collaboration between pools in the meantime.

5.4 Much of the detail of implementing the proposals will be set out in guidance which is expected to be released during the first half of 2024. Although there are asset allocation targets set out within the response, namely the 10% allocation to (global) private equity and the 5% allocation to UK 'levelling up' assets, the Government has stated these targets will (initially at least) be voluntary:

"Guidance will not mandate investment in any particular assets, and the government's strong preference [is] for progress on a voluntary basis, embracing the benefits of scale and striving to deliver returns." (consultation outcome, paragraph 7)

6. IMPLICATIONS FOR THE FUND

6.1 Through Border to Coast, the Fund has already made significant progress towards asset pooling and so to compliance with the requirements set out in the consultation outcome. As at 30 September 2023 55.7% of the Fund's assets are invested through Border to Coast. This is the approximate split of the remaining 44.3%:

Asset class	Percentage of Fund at 30 September 2023	Pooling position
Listed Equities	11.7%	Passive equity – not offered by Pool, unlikely to be cost effective to do so in future
Alternatives (Private Equity/Infrastructure/Other)	18.1%	Not cost effective / practical to transfer to Pool. Will reduce to minimal amount over time (5 to 10 years)
Direct UK Property	9.6%	Decision pending
Indirect Property Funds	1.2%	Small proportion could potentially transfer, remainder not possible to transfer
Cash	3.7%	Always expect to retain cash for working capital (perhaps 2% of Fund). Cost effective to manage cash at Fund.

6.2 The Fund will continue to work with Border to Coast and its Partner Funds to consider whether and how the unpooled assets could be transferred to pool management when it is cost effective, and in the Fund's best interests, to do so.

6.3 On the 10% private equity target, as at 30 September 2023 the Fund had already broadly met this, with an allocation of around 10% and an expectation that this allocation will grow in the short to medium term as more commitments already made to private equity managers are drawn.

6.4 On the 5% 'levelling up' target – the Fund currently invests around 1% of its assets in local investments which would fit the definition of UK 'levelling up' investments. Border to Coast it currently working with its Partner Funds to develop a private markets UK Opportunities sub-fund. Should the Fund choose to make a commitment to that sub-fund, any investment would be likely to meet the 'levelling up' definition.

6.5 On governance, the consultation response sets out proposals to ensure pensions committee members are appropriately trained in order to carry out their role, and that this is reported on and monitored. Paragraph 56 states:

"We will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members. Given the role and responsibilities of committees, including setting the investment and funding strategies for funds, it is essential that members of committees should have the appropriate training, knowledge and skills to undertake their role."

7 NEXT STEPS

7.1 The Committee will be kept up to date with future developments as and when the expected guidance is produced. In the meantime, the Fund will continue to work with Border to Coast and its other Partner Funds to ensure we can respond appropriately to Government directions whilst continuing to prioritise the fiduciary duty we have to our own stakeholders and beneficiaries.

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Department for Levelling Up, Housing & Communities

Consultation outcome

Local Government Pension Scheme (England and Wales): Next steps on investments - government response

Updated 22 November 2023

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This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response

Summary

1. The UK has the largest pension market in Europe, worth over £2.5 trillion. It plays a critical role in providing safe retirement income as part of the social contract between generations. At the Chancellor's Mansion House speech on 10 July 2023, the government announced a series of measures to reform the pensions landscape, increase investment in UK businesses and improve UK capital market competitiveness.

2. Alongside the Local Government Pension Scheme England and Wales (LGPS) consultation, government announcements include: an industry-led Mansion House Compact to drive greater investment into high growth companies from Defined Contribution schemes; a consultations on small pots and decumulation; a consultation response on a new Value for Money Framework for Defined Contribution schemes; and the issuance of two calls for evidence on productive investment by Defined Benefit funds and the role of the Pension Protection Fund and on pension trustee skills, capability and culture.

3. Following extensive engagement with external stakeholders, at Autumn Statement the government is announcing a comprehensive package of pension market reform that will provide better saver outcomes, drive a more consolidated pensions market and enable pension funds to invest in a diverse portfolio. The decisions set out in this response to the LGPS consultation form part of this wider package.

4. On the LGPS specifically, the key aims are realising the benefits of scale and seeking opportunities for returns in the United Kingdom with secondary beneficial effects. In our consultation we sought views on proposals in five areas:

- First, the government set out proposals to accelerate and expand pooling, with administering authorities setting out how they are investing their funds and why. We also proposed a deadline for asset transition to the pools by March 2025 and set out a direction of travel towards pools of at least £50 billion in assets to maximise benefits of scale.
- Second, the government proposed to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) while providing good returns to the scheme.
- Third, the government proposed an ambition to increase investment into high growth companies via private equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government sought views about proposed amendments to regulations to implement requirements on pension funds that use investment consultants.

- Finally, the government proposed to make a technical change to the definition of investments in LGPS regulations.

5. We received 152 responses from across the sector and have carefully considered all responses. We are grateful for all the time and thought of respondents in commenting on our proposals.

6. The consultation received a broad range of responses; it is clear that across the sector there is a collective commitment to making pooling work well and realising the benefits of greater scale and expertise. In addition, it is clear that LGPS investors are willing to seek out and invest in projects which have benefits for local communities where they make sense for the pension fund, and that this is in practice already taking place. It is also clear that there is an appetite to invest in high-growth sectors to the extent that this supports a fund's investment objectives. Proposals to increase the training requirements for the pension committees of LGPS funds, and to improve reporting and transparency of the scheme received wide support.

7. There were some proposals on which many or most responses expressed concern, notably the transition deadline of March 2025, aspects of the preferred model of pooling, and the 10% ambition for private equity allocation. The government's view is that setting clear and up to date expectations in guidance on these matters is essential to securing a step change in progress on pooling and associated benefits of scale, and does not cut across the fiduciary duties of funds. Guidance will not mandate investment in any particular assets, and the government's strong preference for progress on a voluntary basis, embracing the benefits of scale and striving to deliver returns.

8. The government also views the LGPS as being in a favourable position to make a greater contribution to UK growth. Scheme members are protected as their benefits are guaranteed in law and do not depend on investment returns. Many LGPS funds are in surplus, and the LGPS has over 2 million active members and remains open to new members. As a result, the LGPS has the freedom to invest for growth over the long term, unlike many private sector comparators. We encourage funds to consider what this should mean for their risk appetite and investment strategy, and to review the investment opportunities, particularly in private markets, which are available to them. We look to successes in Canada and Australia, where good pension outcomes have aligned with societal and economic benefits.

9. After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.

- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity.

10. We will also amend regulations to require funds to set objectives for investment consultants and correct the definition of investment in the 2016 investment regulations. As proposed in the consultation, the Scheme Advisory Board (SAB) plans to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS. We will work closely with the SAB and relevant committees of the SAB to develop changes to regulations and revised guidance on investment strategy statements, pooling, governance, and annual reports.

11. More widely, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost, and performance.

Chapter 1: Introduction

12. On 11 July 2023, as part of a package of measures to reform the pensions landscape, the government launched a consultation on proposals relating to the next steps for investments in the LGPS. The LGPS scheme is one of the world's largest funded pension schemes and a key player in global markets, investing around £359 billion worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency.

13. The government believes that whilst long term stable returns in order to pay pensions for its members are the primary purpose of the investments, there is scope at the same time to deliver substantial benefits to the UK as a whole.

14. The consultation focussed on five key areas which could have the greatest impact on the scheme and enable the LGPS to deliver these significant national benefits. The five areas were asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. The consultation also covered increased scale, governance and decision making, as well as transparency and accountability.

15. The consultation closed on 2 October 2023 and we received 152 responses, including responses from 82 administering authorities, 14 individuals, 13 asset managers, 12 union responses, 9 advisors, 8 industry bodies, 8 asset pools, 4 campaign groups, 1 local authority which is not an administering authority and 1 law firm.

16. We are grateful for the helpful, detailed and informed responses from across the sector which have greatly assisted government in analysing our proposals and, going forward, will be valuable for informing the next steps for implementation. There were a wide range of views expressed around our proposals and further details of the responses to each question are set out in the document below.

17. The consultation responses were carefully considered, and this response summarises the comments received on each topic and outlines how we intend to proceed.

Chapter 2: Asset pooling in the LGPS

18. The government's view is that accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS effectively uses its scale to deliver on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. The government wishes to see existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. We set out in the consultation proposals to drive greater scale, improve governance and decision making and deliver better transparency and accountability.

Driving greater scale through fewer pools

19. In question 1, the government asked for views on alternative approaches to pooling in the LGPS to that set out in the consultation. The proposed approach

included setting a long-term direction towards fewer pools to deliver scale of at least £50 billion of assets under management.

Summary of responses

20. There were 140 responses to this question. Many respondents commented positively about the broad direction of travel of the consultation and recognised that the scheme needed to evolve to meet new challenges and opportunities. Respondents noted the importance of a well-funded, well managed and sustainable scheme, to which excellent value for money and net performance were critical. Respondents further noted achieving improved delivery and efficiencies create tangible benefits for scheme employers, and for taxpayers.

21. Some respondents felt that it was too soon to consider moving to fewer pools given their relatively short history, and they should be given longer to demonstrate their worth to the sector. A small number of respondents also questioned the transparency of decision making and the level of local accountability and scrutiny of pools, particularly larger pools. Other responses proposed that government should focus on supporting those organisations that had yet to make significant progress.

22. A number of respondents commented that reducing the number of pools could potentially have a negative impact. Particular concerns were raised around potential further transition costs and administrative burdens involved in a further merger of pools. A number of respondents said that greater collaboration between pools to provide suitable investment mandates, and the specialisation of some pools in specific areas of investment, should be seen as an alternative to amalgamation.

23. Respondents also said that pools will need to demonstrate value for money not only in relation to investment management fees but also in relation to the quality of the service they provide in areas such as reporting, responses to queries and other day-to-day work with funds. Respondents also said that funds themselves will also need to have adequate capability and resources with good governance, training and resourcing being key.

24. There were mixed views regarding the case for increasing pool scale. Some supported the drive to greater scale as a means of reducing costs, with several referring to the CEM research (https://hub.cembenchmarking.com/hubfs/PDFs/Research%20Downloads/R-36-A%20Case%20For%20Scale%20February%202022%20Final.pdf) (PDF, 1,722 KB) paper “A Case for Scale: How the world’s largest institutional investors leverage scale to deliver real outperformance” showing that lower fees were achieved at greater scale. Several responses argued that the case for scale was more effective where pools operate in-house management, referring to successes achieved by RailPen and the Universities Superannuation Scheme (USS), and

to the academic research (https://www.benefitscanada.com/wp-content/uploads/sites/7/2023/08/Scale-Economies-Bargaining-Power-and-Investment-Performance-Evidence-from-Pension-Plans.pdf) (PDF, 6.9 MB) paper ”Scale Economies, Bargaining Power, and Investment Performance: Evidence from Pension Plans” (Devries, Kalfa, Timmermann and Wermers, 2023). Others pointed to the increased cost associated with internal management. There was a broad consensus that quality of governance was more important than scale at both the pool and fund level.

25. A small number of responses suggested that different models should be considered. This included a view by some respondents that imposing fund mergers would rapidly increase scale and decrease complexity. These responses pointed to the fact that each administering authority has its own administrator, advisors (legal, actuarial, investment, etc) and Local Pensions Board, which adds cost.

Our response

26. The government welcomes the detailed and wide-ranging responses to this question. A wide range of views were expressed with the majority of views supporting a strengthening of the current pooling model, rather than moving to a significantly different approach. We welcome the emphasis placed on the capability and resources of pools and funds and intend to strengthen the framework of guidance.

27. We understand the concerns expressed on moving to fewer pools and underline that there is no intention to take steps to mandate a move to fewer pools in the immediate term. The government’s view is that the focus in the short term should remain on accelerating transition of assets, improving governance and ensuring greater transparency and accountability. But in the long term the government considers that transition of assets alone will not deliver the full benefits of pooling, as the benefits of scale are present in the £50-75 billion range and improve as far as £100 billion.

28. The Government Actuary’s Department estimate that the LGPS could reach around £950 billion in assets in 2040. We should therefore look towards a smaller number of pools with assets under management averaging £200 billion in the future and government will work with funds and pools over the medium to long term to consider the pathway. In the meantime, we would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication.

A timetable for transition

29. In question 2, the government sought views on the setting of a deadline in Investment Strategy Statement (ISS) guidance for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We considered that a reasonable timeframe for liquid assets to be transferred was by 31 March 2025, which is the end of the current local fund valuation period. We also proposed that transition of all assets should be targeted by this date, as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

30. Under the proposals, funds would work with their pool to ensure that they fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS if the asset would not be pooled by March 2025.

Summary of responses

31. There were 141 responses to this question, of which 18% were supportive, 26% were broadly in favour but said the March 2025 deadline was too soon, 40% were opposed and 16% were neutral.

32. Among those who were supportive there were a range of comments. Some said this proposal would create momentum to deliver the benefits of pooling including professionalism. Others suggested we could go further, for example by mandating or closely monitoring progress. One suggested pooling could be achieved in months, not years. Many suggested that focus should be on funds who were failing to take advantage of opportunity, rather than punishing those who had put in place adequate plans. Some argued that low expertise among some pension committees, overreliance on external investment consultants, and organisational inertia were holding the LGPS back from realising the potential gains from pooling.

33. Those who were broadly in favour but felt that March 2025 was too soon made a range of comments. Firstly, several responses pointed out that the next actuarial valuation will take place with an effective date of 31 March 2025, and normally an investment strategy review would take place following the valuation. Their view was that requiring changes to be made by March 2025 would mean making changes within the life of the existing ISS. Some said that the pools themselves may not have capacity or sub-funds to properly absorb the additional assets. Others suggested that an unrealistic timing could have a detrimental impact on funds, as the need to meet the deadline would force suboptimal decisions to be made. A small number pointed out that if all funds

are competing for similar investments at the same time the competition could have a market impact, increasing prices.

34. There were other constructive comments from those who were broadly supportive of the proposal. These included a request for clarity on the definition of listed assets and the government's expectations with respect to unlisted assets. Several suggested "as soon as practically possible" was a more suitable wording given the different obstacles faced by funds, and others suggested that banning appointment of new listed asset managers would be more effective. Others pointed out there may be more benefits to focussing on unlisted assets, and that by prioritising listed assets the government is missing an opportunity. Many responses said that jointly procured passive funds were already managed with low fees, and as such would not benefit from transition.

35. Those who were altogether opposed had a broad range of views. Some responses argued that a fund's fiduciary duty means they should already be seeking the best opportunities which are available to them, and that it was inappropriate for government to be influencing their decision making. They argued that the government's attention should be more focussed on what funds felt was not provided by their pool, and that government should not assume that funds are reluctant. Many respondents said that the right investments were not always readily available in their pool and that upfront transition costs could outweigh any long-term benefits of pooling. Others challenged the case for scale and argued that the guidance should be based on a more strongly evidenced case.

36. Some respondents felt that funds should be permitted to invest a small proportion, not normally more than 5%, of a fund's assets outside the pool in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. These responses argued that these investments should not be subject to any guidance requiring transition by 2025. We comment on this in our answer to Question 9.

Our response

37. Having carefully considered responses, the government will draft guidance to implement the proposal. The proposals set out in the consultation were to have a requirement in Investment Strategy Statement (ISS) guidance to either transition assets by March 2025, or to set out a detailed rationale for each asset remaining outside the pool including value for money considerations. This is effectively a "comply or explain" regime, which does not mandate particular investment choices.

38. The government accepts that a March 2025 deadline will be a significant challenge for some pools and funds to achieve but our view is that a step change is necessary to deliver the benefits that greater scale will deliver. A

delay to March 2026, as proposed by some respondents, would risk pushing significant action on transition into the next valuation period.

39. The government also accepts that for certain assets transition will difficult or undesirable by March 2025. This may include jointly procured passive funds. In those cases, a detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by March 2025. The rationale should include why it is not appropriate to pool the asset by March 2025, and the plan with regard to pooling that asset. We would also expect the rationale to set out when the decision will be reviewed on each asset and what the plan is to transition by a later date.

Governance and decision making

40. In question 3, the government sought views on revising guidance on pooling to ensure all funds participate in a strong partnership with their pool and with other partner funds, and delegate effectively to their pool. The government's view is that delegation of strategy implementation and manager selection will allow the pool to deliver the benefits of scale. We do not propose any change to the responsibility of funds for setting investment strategies.

41. We proposed revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also proposed that guidance should set out a model of pooling including a number of aspects which we consider key to progress. The summary below covers the responses to the question and the comments on each characteristic.

Summary of responses

42. There were 140 responses to this question. There were several parts to the proposal with varying levels of support, but on the broad question of whether guidance should recommend a model of pooling 62% were opposed, 17% supportive and 21% neutral. Many supported the proposal to issue revised guidance regarding pool and fund interaction. Many referred to the model we proposed as a fiduciary management model, and some respondents suggested that while fiduciary management could be appropriate and successful for some funds it was not appropriate for all. Several responses said that guidance was not a legally enforceable means of delivering the government's objectives.

Others felt that the proposals were unbalanced, largely targeting administering authorities, rather than pools.

43. There were a wide range of views on the aspects of the proposed model of pooling, set out below for each aspect.

> “ Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.”

44. This characteristic was broadly supported by most respondents. Most respondents agreed that pools should act in the sole interests of their partner funds, and some noted that this was an important prerequisite for exemption from the requirement to run a public procurement under the Public Contracts Regulations 2015. A minority were concerned that other considerations such as responsible investment would be excluded from pool decision making. Some respondents viewed inter-pool competition as desirable, arguing that funds would benefit from cross pool investment, and that inter-pool competition might help to reduce the number of pools in the long run. Some responses interpreted “single entity” as implying a specific model of pooling centred on a pool company owned by the participating funds which they did not support.

> “ Pools should be actively advising funds regarding investment decisions, including investment strategies.”

45. A majority of responses were opposed to this proposal. Some suggested that it would be improper for pools to advise as they would have a conflict of interest, or that pools would have difficulty in advising appropriately. Some suggested that it was important to use a broad range of advisors. Several argued that a fund’s right to seek its own sources of advice was part of its fiduciary duty. Some said that not all pools had the requisite Financial Conduct Authority permissions to provide advice. Some were concerned that the Competition and Markets Authority (CMA) would raise questions on the lack of a public procurement process to ensure competitive provision.

> “ Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.”

46. Responses were divided in relation to this point. Many welcomed the clarity that strategic decision making should remain the responsibility of administering authorities, and that the pools should be capable of implementing the required investment strategy. Some said that we should be more specific that manager selection should be left to pools. However, some suggested that the distinction between strategic decision making by funds and implementation by pools was

not clear cut, and that administering authorities might respond by setting more detailed strategies.

> “ Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.”

47. A broadly even number of responses supported and opposed this characteristic. Many were sympathetic to increasing efficiencies by encouraging a smaller number of sub-funds. However, some argued that pools may not always offer suitable choices, that transaction costs would outweigh the savings, or that a bias in favour of existing sub-funds would lead to suboptimal decisions. One pool argued that reducing the number of external investment managers, not the number of sub-funds, created efficiencies. Others suggested this point would run counter to the statutory requirement to invest in a diverse portfolio of assets.

> “ Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.”

48. There were few comments on this point. Several sought clarity that such decisions should only be made by the pool within the delegated remit of the administering authority and in respect of investments within pool vehicles. Several respondents argued that such decisions should not be delegated to pools.

Our response

49. Having considered responses carefully, the government has decided to revise guidance on pooling as proposed. This will set a clear direction for all funds to move towards delegation of strategy implementation and manager selection, in order to deliver the benefits of scale for all. We recognise there are several current models of pooling, and that all have some benefits, but the government’s view is that in the medium and longer term certain key characteristics are essential for progress, although there may be transitional costs for some pools. Progress towards this model will be monitored and reviewed.

50. The revised guidance will therefore include a preferred model of pooling which we will expect pools to adopt over time. This model will be based on characteristics and outcomes rather than prescribing particular structures and will make clear that inter-pool collaboration is encouraged to deliver further benefits of scale. The partner funds will remain in control of their pool, and this will be important in ensuring that it delivers the products and services which the

funds wish to have, and the financial and non-financial benefits of scale for all. The requirement to act in the best interests of funds will not prevent pools from adopting policies for example on responsible investment where at least a majority of partner funds agree. Progress towards this model will be monitored with ministers taking a role in reviewing change and engaging pools as necessary.

51. The government does not consider that it would be a conflict of interest for the pool companies owned by LGPS funds to provide advice on investments, or that a public procurement is required, as they controlled by their partner funds, exist to provide services to the funds and do not benefit financially if funds take their advice. Where there is an external pool operator, pools may procure investment advice through a separate contractor to avoid a conflict of interest.

Improving training for pensions committee members

52. In question 4, the government sought views on proposals to set out in guidance that administering authorities should have a training policy for pensions committee members and report against it. The government's aim is to help authorities ensure that pension committee members have appropriate knowledge and skills to make decisions and to make good use of professional advisors.

Summary of responses

53. There were 136 responses to this question of which 91% were supportive of the proposal with many respondents commenting that the proposals would be welcomed across the scheme. Respondents commented that increasing training amongst pension committee members would be of benefit to committees, enhance scrutiny, better inform decision making, and build confidence with scheme members. Some responses pointed out that under the existing statutory guidance for annual reports (issued by CIPFA in 2019) funds should already be reporting the training undertaken by pensions committee members.

54. Many funds stated that they already have well established training plans in place and have made training mandatory for committee members, but that this is not universal. A number of respondents reported issues around recruitment, retention and high turnover of members which could risk the effective administration and oversight roles of committees.

55. A number of respondents commented that any proposed guidance should refer to existing requirements and best practice, including the CIPFA

Knowledge and Skills Framework and Guidance, MiFID II requirements, and the requirements for local pension board members. The Scheme Advisory Board encouraged the government to set out a timetable for the implementation of its recommendations on training and pensions expertise, and many other respondents endorsed this approach.

Our response

56. We will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members. Given the role and responsibilities of committees, including setting the investment and funding strategies for funds, it is essential that members of committees should have the appropriate training, knowledge and skills to undertake their role.

Transparency and accountability

57. In question 5, we sought views on increasing transparency of asset allocation, pooling, returns and savings, in order to provide transparency on progress of pooling by fund, by pool and across the scheme. The proposals also aimed to provide the consistency needed to support an overall view of asset allocation across the scheme and to minimise the burden of reporting on funds.

Annual reports and LGPS statistics

58. This consultation sought views on proposals to revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation, a comparison between actual and strategic asset allocation, a report of the net savings from pooling, through a standardised data return. We sought views on whether to require funds to report the returns achieved by each asset class against a benchmark across funds.

59. We also proposed to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

Summary of responses

60. There were 136 responses to this question and most were supportive of the proposals. On the proposal that funds should report basic asset classes in a consistent way there was broad support, with 81% supportive and 12% expressing opposition. Most agreed it would be helpful to have consistent reporting between funds to promote transparency and to enable the collation of a scheme-wide report. Some said the template should be drafted with the help of fund practitioners and the Scheme Advisory Board. Others said it would be important to ensure that the categories are not ambiguous to help ensure consistency and ease of completion. Some suggested using the same categories as private Defined Contribution and Defined Benefit schemes, as external fund managers are already familiar with these reporting regimes. We identified no objections to the proposal to require compare actual and strategic asset allocations.

61. On the proposal that funds should report the assets pooled, there was broad support, with 67% supportive and 19% expressing opposition. Several expressed concern that funds with a low proportion pooled would be considered to be under-performing, even if there were valid reasons not to pool. A frequent example was jointly procured passive arrangements, where management fees are already very low and there would be little to be gained by transferring to an asset pool. Others suggested that the categories “pooled”, “under pool management” and “not pooled” were not clear. Some suggested other categorisations, such as dividing assets between discretionary and advisory mandates.

62. With regards to the proposal that funds should report savings from pooling there was also broad support, with 63% supportive and 17% expressing opposition. However, many respondents felt that savings should be calculated by comparing costs against those achievable in the current market, rather than a historic baseline. Several respondents referred to the work of the SAB Cost Transparency Initiative as a good example of best practice. Several felt that there was already too much focus on the cost savings generated by pools, where there should be more focus on pool performance in a broader sense including returns.

63. Some respondents expressed concerns over the additional reporting burden. However, others pointed out that funds are largely already reporting this data in their annual reports and other data provided to the government.

64. The second part of the question sought views on whether funds should report on asset returns against an appropriate and consistent benchmark. There was a consensus that such an approach would be highly difficult to implement fairly, and 55% of respondents were opposed compared to 32% supportive. The primary reason for the opposition was that a consistent benchmark would not take account of the different objectives of different investment strategies. Some suggested that benchmarking could influence

decision making in an unhelpful way by incentivising strategies to closely track the benchmark. Others pointed out that even a fair benchmark for each asset class would be an incomplete measure of good performance as it would not capture the suitability of the strategy, only the performance against the strategy. For this reason, some suggested that a more appropriate benchmark would be the actuarial return required by their funding strategy applied to the whole fund return, as this would encapsulate the overall performance of the fund at macro level including the strategy. There was no clear consensus on an alternative approach.

65. Others felt we could go further on promoting good practice and transparency. Several suggested that transparency should focus on two key questions, the suitability of the strategy and the ability of the fund to implement the strategy. Several suggested there should be a means of showing pool performance, including a dashboard approach centred on the value for money delivered by the pool.

Our response

66. We will revise guidance to implement the proposed changes working with the Scheme Advisory Board. We believe that these measures will ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability. The government will collaborate with the Scheme Advisory Board to consider the design of the annual return, noting the preference for consistency with other defined benefit and defined contribution schemes. This will include consideration of reporting on exposure to UK and global markets.

67. Where passively managed funds are held by funds outside the pool, we will expect funds to set out in their investment strategies, the nature of the arrangement, the value for money case for retaining outside the pool, and the date when the arrangement will be reviewed. If there is oversight by the pool, funds should set out how that oversight is exercised. Funds should report assets held in passive arrangements with pool oversight as under pool management.

68. We also asked for views on whether to require funds to report returns achieved by each asset class against a consistent benchmark and on how this could be implemented. In the light of responses highlighting the difficulties of setting benchmarks across the scheme, we intend to require funds to report performance for each asset class against the benchmark of their choice in their annual reports but not to seek to establish consistent benchmarks.

Scheme Annual Report

69. In question 6, the government sought views on our proposals for the Scheme Advisory Board (SAB) to expand their Scheme Annual Report to provide a report on the progress of pooling and on asset allocation across the LGPS. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports to provide a single source of information for members, employers and other stakeholders.

Summary of responses

70. There were 130 responses to this question, of which 79% supported the proposals and 4% were opposed. Respondents responded positively to the proposal to expand the Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS. Respondents also commented that consistent reporting across all funds will make the production of Scheme Annual Reports easier and will provide a helpful picture of LGPS-wide asset allocation. A number of respondents said that it would be important to ensure that the SAB is sufficiently resourced to undertake the work.

Our response

71. We welcome the comments received in response to this question. We believe that expanding the content of the Scheme Annual Report to include an update on pooling will be useful for stakeholders and that the single standard set of data discussed above support this.

72. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category as well as by pooling status (pooled, not pooled or under pool management).

Chapter 3: LGPS investments and levelling up

73. In the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) the

government set out its aim to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level of more prosperous areas. One way in which this can be achieved is by ensuring that some of the funds managed by institutional investors such as the LGPS flow into projects that help deliver levelling up projects while also offering attractive returns.

74. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Definition of levelling up investments

75. In question 7, we asked for views on a proposed definition of levelling up investments. The definition was intended to help LGPS funds and pools in considering how they could invest in a way that promotes growth, supports levelling up, and supports them to pay pensions.

76. The proposed definition was that an investment would meet the levelling up requirement if:

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

Summary of responses

77. There were 138 responses to this question, and 64% were supportive of the definition. Supportive comments welcomed the broad definition as it includes investments across a wide range of asset classes, within diverse investment strategies. Others welcomed the aim of levelling up in the UK by spreading opportunities more equally across the country and bringing communities left behind up to the level of more prosperous areas through boosting productivity, growing the economy and raising living standards across the UK.

78. However, several respondents felt that the definition was too vague, open to interpretation and inconsistencies in its application, in particular by external fund managers. These responses asked for clarity by defining what constitutes a “measurable contribution” and what the term ‘local’ means, and whether deprived areas should be prioritised. Some said that we should say explicitly

that investments which support the transition to renewable energy would qualify. A number of respondents noted that many levelling up investments would be too small scale for pool investments and suggested that they should be made outside the pool.

79. Some respondents referred to the idea of "levelling up bonds," a suggestion made by the Scheme Advisory Board to stimulate investment by replicating the green gilts model. Green gilts are issued by the UK Debt Management Office to help fund projects to tackle climate change, rebuild natural ecosystems and support jobs in green sectors, and raised £9.9 billion in 2022-23. Respondents argued that the success of this model could be replicated with a levelling up focus.

Our response

80. The government welcomes the broadly positive response on the definition of levelling up. We note the requests for additional clarity and will ensure to address this in guidance. However, we will also maintain the principle that a broad definition allows administering authorities to seek out opportunities which they feel will have beneficial impacts. We note the comment that the definition is not one that investment managers are currently working with. Government's view is that the definition is sufficiently broad to allow administering authorities to work with fund managers and agree mandates which suit them. Some responses suggested the creation of "levelling-up bonds" but we do not consider that a new financial instrument is necessary. The government's aim is principally to increase investment in levelling up projects which are more difficult to fund through listed markets.

81. We recognise that some levelling up investments in local projects may be below the necessary scale to attract pool investment, and so some funds may wish to continue to invest outside the pool. However, pools also may be able to conduct due diligence with the benefits of scale and may help funds to manage any potential conflicts of interest arising from investing locally. We therefore encourage funds to consider investing in projects which support levelling up through their pool.

82. We will work with the Scheme Advisory Board to develop draft guidance for further consultation.

Enabling investment to support levelling up

83. In question 8, the government asked for views on whether funds should be able to invest through their own pool in another pool's investment vehicle. Some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, we proposed that funds should be able to invest through their own pool in investment vehicles provided by other pools.

Summary of responses

84. There were 144 responses to this question, of which 65% supported the proposal. Respondents cited the benefit of having access to an increased number of investment products, in addition to a wider range of specialist investment expertise. Similarly, respondents were supportive of increased collaboration between pools and thought that this would support an increase in the rate of assets being pooled. Many responses said that pools cannot be experts in all areas in a way which is cost effective, so allowing cross-pool investment in this way would support specialisation and efficiency.

85. A number of responses were supportive of the principle of investing in another pool but would prefer to allow direct investment in another pool's fund in order to reduce layers of fees and complexity.

86. Some respondents raised concerns around the potential for conflicts of interest to arise for pools, between serving their partner funds and attracting business from other pools. Some respondents suggested that there should be a focus on developing the expertise and range of products available within current pools, and only when there is no other option should a fund invest in another pool.

Our response

87. We will revise guidance on pooling to set out the circumstances in which it would be appropriate for LGPS funds to invest through their pool in another pool's investment vehicle. We note that some respondents expressed a preference to invest in a different pool directly, but the government's view is that investment in other pools should be made only through a fund's own pool in order to prevent potentially wasteful and costly competition between pools. Allowing investment in pools other than their own by without going through their pool could also undermine the relationship between pools and their partner funds and reduce pools' incentive to act in the interests of their partner funds.

Requirement to publish plans for increasing local investment

88. In question 9, the government asked for views on the proposed requirements for the plan to invest up to 5% of assets under management in projects that support levelling up across the UK. This would be published by LGPS funds under proposals set out in the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom).

89. We proposed that the plan should take account of the fund's investment and funding strategy statements and be reviewed at least every three years in line with the local valuation cycle. We also proposed that the plan should include:

- the fund's current level of investment in levelling up investments
- a plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- the fund's approach to working with their pool to reach their chosen allocation

Summary of responses

90. There were 138 responses to this question, of which 53% were opposed and 25% were in favour. Many responses were on the principle of setting an expectation for funds on investing in levelling up. Many responses said that levelling up investments could form part of a diversified portfolio and that social impact was already an important consideration for funds.

91. Some argued that appropriate investments were already permissible and indeed being made but considered that any requirement to invest in levelling up could cut across funds' fiduciary duties. Some respondents were concerned that setting an expectation on investing in levelling up could result in lower quality investment or investment at higher prices unless the supply of investable opportunities could be increased to meet the demand.

92. Most responses on the proposed requirements for the plan preferred the suggestion that the Levelling Up plan could be part of the Investment Strategy Statement (ISS) rather than a standalone document. Some responses questioned whether funds could adopt a target either lower or higher than 5% in their plans.

93. Many pointed out that levelling up assets can come from a number of different asset classes including property, infrastructure, private equity and private credit. They said that such assets should be considered for investment on the same criteria as other assets within the same class. Some respondents

said that levelling up assets did not share similar characteristics in the same way as an asset class and could not form part of an investment strategy as a result.

Our response

94. We will revise guidance on investment strategy statements to require funds to have a plan to invest up to 5% in levelling up projects. These investments are generally expected to provide good returns but may include investments with lower returns made under existing guidance on non-financial factors in investment. The government considers that public markets investments in providers such as housebuilders, construction, utilities companies would generally not eligible.

95. The 5% is not intended to be a maximum, and funds may invest more than 5% if they consider it appropriate within a diversified strategy. They may invest less than 5% if they do not consider there are sufficient opportunities for good returns. The purpose of the expectation is to act as a guide and encourage funds to consider for themselves what an appropriate allocation would be.

96. We have considered the concerns raised on fiduciary duty, but the government's view is that the requirement to set a plan to invest in levelling up does not mandate investment and does not cut across fiduciary duty. We agree with respondents that levelling up is not an asset class, and different types of investment could support the goals of levelling up. Funds should consider the suitability of levelling up assets in the same way they consider other assets of the relevant asset class.

Reporting requirements on levelling up investments

97. In question 10, the government asked for views on the proposed reporting requirements on levelling up investments. These were to require funds to report annually on their progress against their plan in their annual report, to provide transparency and accountability on investments made by funds. The section of the annual report on levelling up would be expected to include:

- the percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund
- the amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool

- a narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

Summary of responses

98. There were 134 responses to this question, of which 42% were opposed and 37% were in favour. Some said that improved transparency was beneficial for members and employers and could help funds to make sure that their investments were delivering levelling up in line with objectives. Some suggested that funds should adopt best practice via the Place Based Impact Reporting Framework (https://www.impactinvest.org.uk/learning-hub/place-based-impact-investing/a-pbii-reporting-framework/).

99. Many respondents were concerned about the burden of additional reporting requirements and suggested that these reporting requirements could be phased in over a longer, potentially a 3-year period. Some argued that it would be difficult for external fund managers to know the exact proportion of assets in their fund which fulfilled the criteria. Respondents pointed out that there would be costs associated with the proposal including procurement and training.

Our response

100. We will revise guidance on annual reports to include guidance on reporting progress against the fund's plan. Given the concerns raised on the additional burden and the need for clarity to assist data collection, we will expect data to be reported on a best endeavours basis and will work closely with the SAB and practitioners to design a reporting template.

Chapter 4: Investment opportunities in private equity

101. In question 11, we asked for views on whether funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio. We also asked whether there are barriers to investment in growth equity and venture capital for the LGPS which could be removed. The government proposed that LGPS funds and pools should double their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This

ambition would help drive investment, in a way that allows everyone in the UK to benefit from growth, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

102. We proposed that LGPS funds should consider such private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement. The new ambition would be set out in revised guidance on investment strategy statements.

Summary of responses

103. There were 144 responses to this question and 84% were opposed to the proposal including many who thought that the government was proposing to mandate investment in private equity. The most cited reason for opposing the proposal was a perceived conflict with funds' fiduciary duties. Numerous respondents said that a government ambition of 10% investment in private equity, even if not mandatory, was inappropriate and that local funds should be free to make their own choices locally, after considering their individual circumstances and risk appetites. Several respondents also expressed concern about private equity as a higher risk asset class, and about impacts on investment costs and liquidity.

104. The definition of private equity was a concern to some respondents. Some respondents assumed that the ambition would only include UK private equity. Some considered that a broader set of private markets investments should be included in order to support UK growth more effectively, and in particular that private debt also provided good returns to funds while providing companies the valuable capital they need to scale up.

105. Most respondents did not identify particular barriers which were preventing investment in private equity in addition to high cost or risk. Some said that suitable investments in private equity were not available, or that there was insufficient scale or pipeline of opportunities in the UK market to attract greater investment. Others pointed out that as funding levels have recently improved at the 2022 actuarial valuation, some funds would be more inclined to de-risk their asset allocations.

106. Many responses indicated that private equity was an important asset class for their fund, and that a significant amount of private market investment was made through asset pools. Some reported that these investments were made as parts of diversified portfolios and that they supported local projects which could be categorised as levelling up.

Our response

107. The government is committed to unlocking capital to support growth businesses whilst improving returns for pension funds. This forms part of a wider package of measures to reform the pensions landscape which aims to improve outcomes for pension savers, strengthen the diversification of pension fund investments and increase the finance available for the high-growth companies in all parts of the UK.

108. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. The government believes the LGPS is therefore well placed to benefit from these more illiquid but potentially higher-return investments, with a view to improving the financial stability of local councils over the long term.

109. The government wishes to ensure that LGPS investments reflect an appropriate long-term balance of risk and return for a large open scheme with members mainly employed by tax-backed employers. A prudent adjustment in risk appetite on a proportion of investments is necessary in order to secure higher returns as well as contributing to UK growth. Investment in the UK is particularly welcome but it is not proposed to restrict this ambition to investments in private equity in the UK.

110. The government has carefully considered the responses to the consultation. However, setting an ambition to invest 10% in private equity would not mandate investment. Administering authorities would be under the same requirement as currently to act in the interests of members under their fiduciary duty. Investments in private equity should only be made as part of an appropriate and diversified investment strategy which aims to provide good returns in the interests of scheme members, employers and local taxpayers.

111. The government will therefore set a new ambition for funds to invest 10% of assets in private equity in revised guidance on investment strategy statements. This will help improve access to finance for high-growth companies all across the UK, including areas where businesses face particular challenges accessing the capital they need to grow. LGPS investment into innovative local companies stands to increase potential returns while boosting growth and jobs in local areas.

112. Whilst the 10% ambition relates to private equity allocations, the government recognises the broader opportunities in private markets including, for example, private debt which may also provide good returns for funds whilst contributing capital for companies seeking to grow. It is for LGPS funds to decide what other investments outside of this ambition are appropriate for them in line with their risk management and fiduciary responsibilities.

British Business Bank

113. In question 12, the government sought views on whether the LGPS should be supported to collaborate with the British Business Bank (BBB). The BBB is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

Summary of responses

114. There were 128 responses to this question, and just over half (57%) supported the proposal. The British Business Bank was widely recognised as an effective organisation with a good investing track record in the UK, though some felt its track record was too short. Many said that they would only consider working with the BBB if it could offer suitable investment products. Some respondents pointed out that the BBB's offer was likely to be more suited to pools than administering authorities. Some respondents asked why the government's focus in the consultation was on the BBB and not other organisations.

Our response

115. To support LGPS in delivering against the 10% ambition, we will encourage LGPS pools to develop and strengthen partnerships with the BBB to explore opportunities in venture capital and growth equity. As the Chancellor announced at Mansion House this year, the BBB is in the process of engaging industry to test the case for a government-led investment vehicle to support pension fund investment into high-growth companies by providing access to the BBB's pipeline of investment opportunities.

Chapter 5: Improving the provision of investment consultancy services to the LGPS

116. In question 13, the government sought views about proposed amendments to regulations and guidance to require LGPS funds to set and review strategic objectives for any investment consultants which they use. This would bring requirements on LGPS funds under LGPS regulations and guidance into line

with requirements under an order made by the Competition and Markets Authority (CMA) in 2019 which already apply to the LGPS.

Summary of responses

117. There were 118 responses to this question, of which 94% were in favour of the proposal and 4% were opposed. Respondents commented positively that the proposals would be a prudent and valuable addition to LGPS regulations, promote transparency, accountability, and effective engagement with investment consultants. A number of respondents also noted that transferring the requirement from the CMA Order to the LGPS regulations would ensure a more consistent approach to investment consultancy services across the LGPS.

118. A number of responses noted that pool companies owned by LGPS funds are treated as in-house providers and are exempt from the CMA order, which excludes in house or wholly owned providers of investment consultancy or fiduciary management. Respondents questioned whether these pool companies should remain exempt in LGPS regulations and guidance. A few respondents requested clarity on whether investment advisers that are not part of FCA authorised entities or who are independent would be covered. Respondents also requested further guidance on the scope of the services that independent investment advisors may advise on.

Our response

119. We will bring forward amendments to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance to implement requirements on LGPS funds that use investment consultants. With regard to the application of the requirements to pool companies owned by LGPS funds, we that it would be good practice to set objectives for all investment consultancy providers including pools, and will set this out in revised guidance. The guidance will also make clear that all providers of investment consultancy services are covered including independent advisers and that such services include advice on investments, investment strategy statements, strategic asset allocation and manager selection.

Chapter 6: Updating the LGPS definition of investments

120. In question 14, we asked for views on a proposed technical change to the definition of investments within regulation 3(1)(b) and 3(4) of the 2016 regulations. This would correct an inconsistency in the definition of investment that the Joint Committee on Statutory Instruments identified in the 2016 regulations.

121. We proposed to add the word 'partnership' to regulation 3(1)b as follows:

- Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership.

122. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 3(4), where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Summary of responses

123. There were 83 responses to this question of which, 89% agreed that the technical change would help clear up ambiguity in the regulations. A number of respondents considered that such investment vehicles were too high-risk and inappropriate for the LGPS.

Our response

124. We will bring forward amendments to the regulations to make a technical change to the definition of investments within regulation 3(1)(b) and regulation 3(4) of the 2016 regulations. The proposed amendment provides consistency and clarity and fulfils a commitment the department has made to update the definition of investment as set out above at the earliest opportunity.

Chapter 7: Public sector equality duty

125. In question 15, the government asked for views on impact on any particular groups with protected characteristics, in order to help us ensure that the impact of any changes on groups with protected characteristics is properly considered, with proper regard to our obligations under the public sector equality duty.

Summary of responses

126. Of the 152 responses, 7% suggested a particular group with a protected characteristic would be affected. Several responses indicated that there were groups who could benefit from the proposals on levelling up, including older people via social housing investment, and people in deprived areas.

127. Some responses pointed out that the LGPS provides vital income to millions of people including high proportions a disproportionately high number of females, part-time workers, ethnic minorities and low-income workers. They argued it is therefore vital that the LGPS is well run for the protection of member benefits and expressed concern that future benefits could be affected if investment returns were lower as a result of changes to investments via the cost-control mechanism.

128. A number of respondents asked why the government had not prepared an Equality Impact Assessment alongside the consultation.

Our response

129. Most of the responses which expressed concern suggested that member benefits could be at risk as a result of the proposals. This is not the case as member benefits are guaranteed in statute and are unaffected by the performance of any LGPS fund.

130. Some referred to the cost-control mechanism, which is the process designed to ensure a fair balance of risk between scheme members and employers which can result in changes to the benefits members accrue. The cost-control mechanism does not depend on either historic or future investment returns, so scheme members should be reassured that the proposals in this consultation will not affect their pension benefits.

131. We believe that the reforms set out above will not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments. The changes relate to the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 11

PENSION FUND COMMITTEE REPORT

13 DECEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

XPS 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 Committee 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 Committee 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.

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XPS Administration

Teesside Pension Fund

Performance Delivery Report

2023-2024

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01 **Overview**

Regulations and Guidance

McCloud update - Consultation outcome and regulations laid

The Department for Levelling Up, Housing and Communities (DLUHC) announced the outcome of the consultation on supplementary McCloud issues and draft regulations on 8 September 2023. It also laid The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023, which take effect from 1 October 2023. DLUHC issued a correction slip to the regulations on 20 September 2023 to fix a couple of minor typographical errors. The regulations implement the McCloud remedy and amend the underpin rules to make sure they work correctly. Part 2 of the regulations replaces the underpin rules in the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014. It also makes some related changes to the LGPS Regulations 2013. Part 3 requires administering authorities to check past calculations for events that happened between 1 April 2014 and 30 September 2023.

Abolishing the LTA

On 12 September 2023, The LGA responded to the policy paper from HM Revenue and Customs (HMRC) on abolishing the lifetime allowance (LTA). The Government announced in the Spring Budget 2023 that it will abolish the LTA completely from April 2024. HMRC then released draft legislation and a policy paper on 18 July 2023 to achieve this and asked for responses by 12 September 2023.

Pensions (Extension of Automatic Enrolment) Act 2023

On 18 September 2023, the Pensions (Extension of Automatic Enrolment) Act 2023 received Royal Assent. 14 The Act gives the UK Government the power to make regulations that will lower the minimum age for automatic enrolment from 22 to 18 and remove the lower earnings limit for contributions. The regulations will apply in England, Scotland and Wales. The UK Government will shortly launch a consultation on implementing the changes.

2022 Scheme valuation report

On 10 August 2023, the SAB published its 2022 Scheme valuation report. The report is compiled from data drawn from local fund valuation reports. It shows:

- the average funding level has improved from 98 per cent in 2019 to 107 per cent in 2022 (on local funding bases) – all fund valuation reports show an improvement since 2019
- the average contribution rate to meet future service costs rose from 18.6 per cent of payroll in 2019 to 19.8 per cent of payroll in 2022
- overall contribution rates fell from 22.9 per cent of payroll in 2019 to 21.1 per cent of payroll in 2022 – this reflects lower deficit contributions
- employee contribution rates marginally increased from 6.5 per cent of pay to 6.6 per cent.

The report also looks at the main assumptions used by administering authorities in their 2022 valuations, looking at trends around the setting of the discount rate, life expectancy and future expectations for inflation and salary increases.

https://lgpsboard.org/index.php/2022-valuations-report

Surpluses working group

The SAB plans to set up a small working group to look at the issues presented by the improving funding position across the Scheme. The objective is to provide general advice for administering authorities and employers that are in surplus or are likely to become so.

Dashboards

Deferred connection guidance updated

On 9 August 2023, the Department for Work and Pensions (DWP) updated the deferred connection guidance and forms. The updates reflect the changes made by the Pensions Dashboards (Amendment) Regulations 2023, which came into force on 9 August 2023. In particular, the changes made to the connection deadline and the deferred connection rules. The connection deadline for all relevant schemes is 31 October 2026. The guidance is for trustees and managers of relevant occupational pension schemes wishing to apply to defer connection beyond 31 October 2026. It sets out the rules, issues to consider, how to apply and how D W P will consider applications. The latest date for applying is 8 August 2024.

Investment Issues

The SA Board has published a statement setting out some key principles that will form the basis of its response to the Department for Levelling Up, Housing and Communities (D L U H C) consultation on investment issues. The report can be found at https://lgpsboard.org/images/Responses/DLUHC_Investment_consultation_SABresponse.pdf

Update on SAB's cost control mechanism

The Board is considering its own cost control mechanism following changes made to HM Treasury's mechanism. The assumptions on which this process is based are currently being agreed.

DLUHC consultation on investment reforms

On 2 October 2023 the SAB published its full response to the investment consultation. The consultation contained proposals in a range of areas, including:

• setting a target date for the migration of all listed assets to pools

• a proposal to move to fewer pools - with a target size of £50 billion

• a requirement for funds to have a plan to invest up to 5 per cent of assets to support levelling up in the UK 5

• a proposal for funds and pools to dedicate 10 per cent of assets to private equity investments. The Board's response was shaped by a working group comprising of councillors, scheme representatives and practitioners from the Board's membership, led by Board Chair, Cllr Roger Phillips.

LGPS statistics for 2022/23 published

On 25 October 2023, the Department for Levelling up and Communities (DLUHC) published the LGPS statistics for England and Wales: 2022 to 2023. Highlights include:

• total expenditure was £15.2 billion, an increase of 5.1 per cent on 2021/22

• total income was £17.3 billion, an increase of 8.5 per cent on 2021/22

• employers' contributions amounted to £8.4 billion, an increase of 7.8 per cent on 2021/22

• employee contributions were £2.8 billion, an increase of 9.5 per cent on 2021/22

• the market value of the LGPS funds at the end of March 2023 was £357.2 billion, a decrease of 1.9 per cent

• there were 6.2 million scheme members on 31 March 2023: 2 million active members, 1.9 million pensioners and 2.3 million deferred members

• there were 87,129 retirements, a decrease of 8 per cent compared with 2021/22.

SCAPE discount rate and actuarial factors – fourth batch

DLUHC has issued the fourth batch of factors. The new factors came into force from 2 October 2023, except the Club transfer factors, which are effective from 1 October 2023. This completes the review of the factors after the change to the SCAPE discount rate in March 2023.

September 2023 CPI rate announced

On 18 October 2023, the Office for National Statistics announced the Consumer Prices Index (C P I) rate of inflation for September 2023 as 6.7 per cent.

02 Membership Movement

	Actives		Deferred		Pensioner		Widow/Dependent	
Q2 2023/24	25,921	▼	28,186	▲	24,136	▲	3,424	▲
Q1 2023/24	27,074	▲	27,542	▲	23,834	▲	3,392	▲
Q4 2022/23	26,194	▲	27,284	▲	23,581	▲	3,344	▲
Q3 2022/23	25,868	▲	27,002	▲	23,468	▲	3,311	▲
Q2 2022/23	25,713	▼	26,686	▲	23,317	▲	3,321	▼

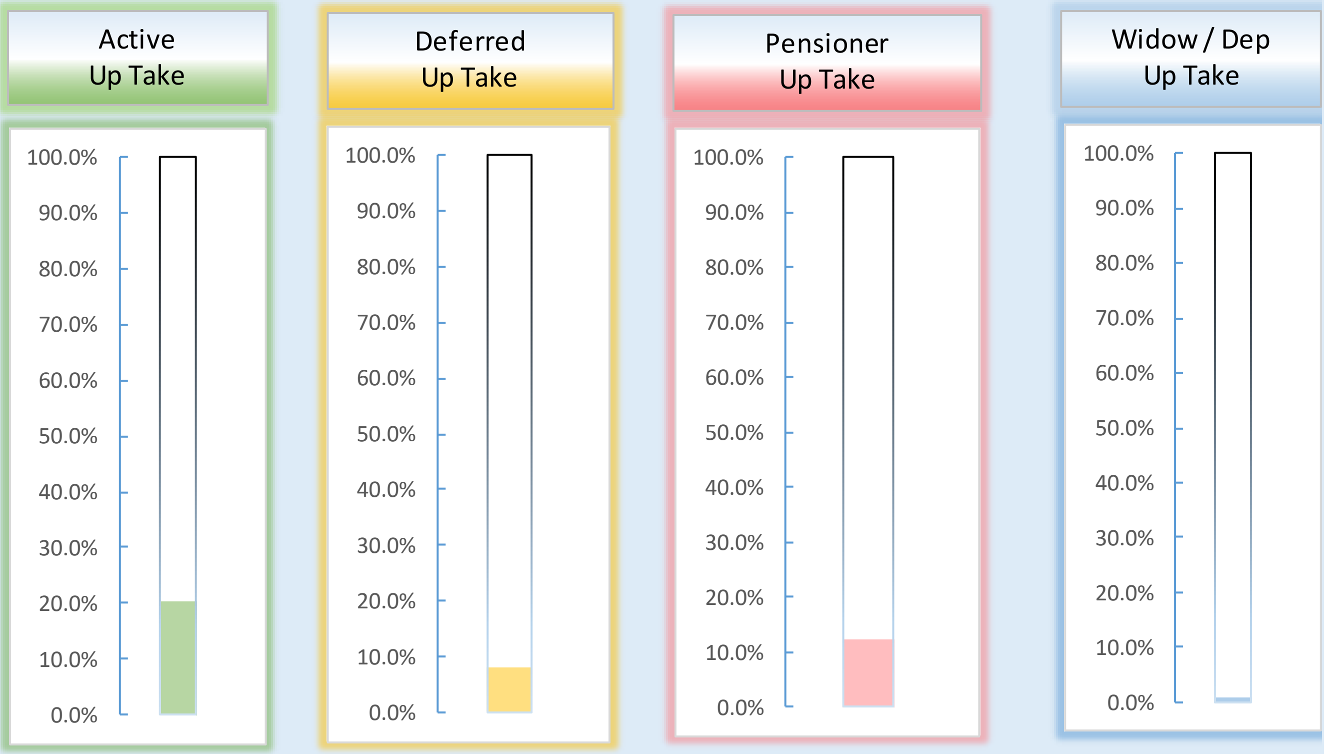
03 Member Self Service

Below is an overview on the activity and registration of the Member Self Service System:

XPS Administration

Member Self Service
User Statistics For:
Teesside Pension Fund

Quarter 2	REGISTERED	ACCOUNT DISABLED	ACTIVATION LINK SENT	NOT REGISTERED	TOTAL	Percentage Uptake
Actives	4,241	54	676	21,204	**21,204**	**20.3%**
Deferred	1,699	17	284	21,494	**21,494**	**8.0%**
Pensioner	2,532	62	276	21,258	**21,258**	**12.2%**
Widow/Dep	26	0	4	3,376	**3,376**	**0.8%**
Total	**8,498**	**133**	**1,240**	**67,332**	**67,332**	**12.8%**



04 **Pension Regulator Data Scores**

Common Data

Data Item	Teesside Pension Fund		
	Max Population	Total Fails	% OK
NINo	81,071	182	99.78%
Surname	81,071	0	100.00%
Forename / Inits	81,071	0	100.00%
Sex	81,071	0	100.00%
Title	81,071	164	99.80%
DoB Present	81,071	0	100.00%
Dob Consistent	81,071	0	100.00%
DJS	81,071	0	100.00%
Status	81,071	0	100.00%
Last Status Event	81,071	663	99.18%
Status Date	81,071	1,804	97.77%
No Address	81,071	427	99.47%
No Postcode	81,071	587	99.28%
Address (All)	81,071	4,887	93.97%
Postcode (All)	81,071	4,946	93.90%
Common Data Score	**81,071**	**3,317**	**95.91%**
Members with Multiple Fails	**81,071**	**485**	**99.40%**

Scheme Specific Data

In readiness for the pensions dashboard, there is a minimum requirement pension schemes bust be able to demonstrate against as required and defined by the Pensions Regulator.

This standard is available to XPS through a product used by our central team, and we are currently undertaking a data mapping exercise in order to be able to carry out the necessary tests. Once this work has been completed, we will be able to report a data score in accordance with the Pensions Regulator standards.

Public sector pension schemes need to be able to connect to the Dashboard by October 2026, so in advance of this, the scheme data must be tested and where necessary, brought up to the requisite standards required

05 **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	%
16,162	3,066	18.97

Question	Previous Response*	Current Response*
1. It was easy to see what benefits were available to me	4.27	4.26
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	4.04	4.04
5. My query was answered promptly	4.45	4.45
6. The response I received was easy to understand	4.44	4.43
7. Do you feel you know enough about your employers retirement process	76.68%	76.75%
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)	47.75%	46.21%
11. Did you use the website to research the retirement process? (from 18/05/17)	27.59%	26.45%
12. Have you heard of Member Self Service (MSS)? (from 18/05/17)	23.80%	22.25%

*scoring is out 5, with 5 being strongly agree and 1 being strongly disagree

Service Development

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.

Additional funds were only drawn down when roles were filled to undertake the additional services. This has so far led to:

Initial Planning

To help with the creation of the teams that will assist with the additional services two new posts were created to covering Governance & Communications plus Systems & Payroll. These were filled by Paul Mudd and Neale Watson respectively on 11th July 2018. Their roles were then to look at how XPS could then provide the agreed services to the Fund.

Communications

A new website was launched to Scheme Members and Employers on the 5th May 2021 which is underpinned with a raft of analytical data which serves to tell us limited information about the audience. This allows us to target news and important items to pages we now know people are viewing and searching for. The following chart provides an overview of the information we have collected.

We can learn a lot from this data, and we will of course be trying to increase footfall to the site by strategically linking the site with participating employers.

As well as these above analytics, we are testing the website regularly to prove its structural and technical integrity. This ensures that people see exactly what we want them to see, regardless of what browser or device they use. We can test these levels and do so several times per week to ensure the web coding is robust and modern. It all helps with the overall Member and Employer experience and allows web indexation to be that much better. This promotes the website in something like a google search.

Next Steps

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. The initial stage is currently underway and we have a number of employers who have agreed to undertake the initial rollout. This will help ensure starters, leavers and variations are provided in a timely manner and current data is held to speed up the calculation process.

The next steps will include the recruitment of at least one further member of staff to assist with the processing of the data.

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

Pension awareness sessions and employer training sessions are continuing with a positive uptake and response. Sessions on tax will commence shortly now the Pension Saving Statements have been issued. Processing of new admissions to the fund is ongoing with the new standardised passthrough approach being adopted.

Late Payment Analysis

This table shows analysis of contributions received from participating employers.

We do chase these on a monthly basis and an e-mail has been sent to regular offenders asking them to explain why contributions are being paid across late. Health Checks have been initiated with these employers.

Date	Late Payments	Expected Payments	% Late	<10 Days Late	>10 Days Late
Jun-22	3	142	2.00%	2	1
Jul-22	2	142	1.00%	0	2
Aug-22	4	140	3.00%	1	3
Sep-22	2	140	1.00%	0	2
Oct-22	8	139	6.00%	8	0
Nov-22	2	140	1.00%	1	1
Dec-22	3	140	2.00%	3	0
Jan-23	3	140	2.00%	0	3
Feb-23	5	140	4.00%	1	4
Mar-23	4	140	3.00%	0	4
Apr-23	10	140	7.00%	6	4
May-23	4	140	3.00%	1	3
Jun-23	7	142	5.00%	5	2
Jul-23	3	144	2.00%	0	3
Aug-23	3	144	2.00%	0	3
Sep-23	4	143	3.00%	0	4

06 Completed Cases Overview

Teesside Pension Fund	Cases completed	Cases completed within target	Cases completed outside target	Cases: % within target
LG Team – Admin Manager Mathew Spurrell				
April	416	416	0	100.00%
May	417	417	0	100.00%
June	450	450	0	100.00%
Quarter 1	**1,283**	**1,283**	**0**	**100.00%**
July	382	382	0	100.00%
August	497	496	1	99.80%
September	532	528	4	99.25%
Quarter 2	**1,411**	**1,406**	**5**	**99.65%**
October	529	528	1	99.81%
November	586	586	0	100.00%
December				
Quarter 3	**1,115**	**1,114**	**1**	**99.91%**
January				
February				
March				
Quarter 4				
Year - Total	**3,809**	**3,803**	**6**	**99.84%**

07 **Completed Cases by Month**

August 2023

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 targ	TOTAL (case	Within Targ	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	99.23%	5.59	130	1	130	129	
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	31	0	31	31	
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	21	0	21	21	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	315	0	315	315	
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%	#DIV/0!	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 2023

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	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	3.45	125	0	125	125	
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	35	0	35	35	
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	26	0	26	26	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	98.8%	5	346	4	346	342	
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			

October 2023

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	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	4.51	104	0	104	104	
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100.00%	7	51	0	51	51	
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	22	0	22	22	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	99.7%	5	352	1	352	351	
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%	0%	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			

November 2023

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	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	3.72	179	0	179	179	
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	33	0	33	33	
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	47	0	47	47	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	327	0	327	327	
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%	0%	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			

08 Complaints

Full Name	Description	Date received	Date completed	Comment

Graeme Hall
Operations Manager
01642 030643

Registration

XPS Pensions Consulting Limited, Registered No. 2459442.

XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

XPS Pensions (Trigon) Limited, Registered No. 12085392.

Penfida Limited, Registered No. 08020393

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

Authorisation

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

TEESSIDE PENSION FUND COMMITTEE REPORT

13 DECEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

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

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, Corporate Governance & Voting Guidelines and Climate Change Policy.

2 RECOMMENDATION

2.1 That Members note and approve the revised Border to Coast documents that are included as Appendices A, B and C to this report.

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 (RI) 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. In 2021, Border to Coast also introduced a standalone Climate Change Policy.

4.3 The Responsible Investment Policy, Corporate Governance & Voting Guidelines and Climate Change Policy are reviewed annually or when material changes need to be made. The annual review process commenced in summer to ensure any revisions are in place ahead of the 2024 proxy voting season.

4.4 Border to Coast has worked with its voting and engagement partner Robeco to update the documents, considering the International Corporate Governance Network (ICGN) Global Governance Principles and the changing regulatory environment. The policies have also been reviewed against best-in-class asset managers, and asset owners considered to be RI leaders to determine how best practice has developed. All seven other pools climate change policies were also reviewed.

4.5 Regular RI workshops were held during the year for the Officers Operation Group and the Joint Committee. Areas covered included the RI strategy, the regulatory landscapes, thematic engagement, the voting process and climate-related voting. A separate working group was set up with Partner Funds' officers covering reporting carbon emissions.

4.6 Partner Funds were asked for input early in the review process and a common area of interest was the reduction of revenue thresholds for thermal coal and oil sands production. A workshop was held with the Officer Operation Group of the Partner Funds on 3 October, and the proposed revised Policies were shared with officers and feedback received from two Partner Funds. This was requesting the impact on the investible universe of reducing revenue threshold levels and broadening the controversial weapons definition, the voting implications of raising the threshold for gender diversity for UK companies, and wording on scenario analysis.

4.7 The approach to exclusions was reviewed as part of the policies review process. More detail is included at section 5 of this report.

4.8 These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the draft policies.

4.9 Partner Funds have been asked to complete their review and approve the revised policies by the end of 2023 so that Border to Coast can apply the revised policies and disclose their voting intentions to companies prior to the peak season.

5 RESPONSIBLE INVESTMENT POLICY - KEY CHANGES

5.1 This year's RI Policy review reflects suggested improvements from Robeco and work undertaken during the year; including on Border to Coast's Net Zero commitment.

5.2 Amendments have been made to all the sections for integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, the impact Border to Coast's Net Zero commitment and progress made on Real Estate ahead launch.

5.3 The wording on human rights has been expanded to include how Border to Coast will engage.

5.4 An area continuing to gain focus from an investment perspective is biodiversity. Border to Coast is currently engaging on biodiversity issues through its support of the Investor

Policy Dialogue on Deforestation Initiative (IPDD), through Robeco and as part of a Waste and Water theme and its engagement on climate change. Therefore, a high-level overview has been inserted into the RI Policy which covers Border to Coast's approach to engagement.

5.5 As part of this year's annual review the approach to exclusions has been revisited. When considering any exclusions, Border to Coast considers the associated material financial risk of a company's business operations and whether they have concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour. Border to Coast also assess the impact on the investible universe and the benchmarks its portfolios are measured against.

5.6 To support Border to Coast's Net Zero and to send a clear signal on intentions, the recommendation is to reduce the exclusion thresholds to 25% for thermal coal and oil sand production (aligned with illiquid assets).

5.7 An exclusion related to thermal coal power generation has been introduced with a revenue threshold of 50% for developed markets. A higher threshold of 70% has been introduced for emerging markets to reflect support of a just transition and recognition that countries have differing transition timelines and dependencies on coal and the potential impact on energy availability and economic development.

5.8 The exclusion for controversial weapons has been broadened to cover landmines, biological and chemical weapons. This covers international treaties and conventions relating to controversial weapons that the UK has either ratified or is a state party to.

5.9 The exclusions in place take into account material financial factors and are limited to areas where it is important to give explicit indications to the investment decision makers.

5.10 The changes to the exclusions approach are not expected to lead to any significant changes to Border to Coast's existing investment portfolios as these risks are already reflected in the investment decision making process. Partner Funds will be able to assess this through performance versus respective benchmarks for the investment funds. This is an area Border to Coast will continue to engage with Partner Funds as to how this develops over time.

5.11 The proposed amendments to the RI policy and Border to Coast's rationale for these changes are listed in the table below.

Section	Page	Type of Change	Rationale
2. What is responsible investment	3	Addition	RI approach potential to add value (reflecting our Chair's comments).
5. Integrating RI into investment decisions	4 4 4	Addition Addition Addition	Add just transition to the table under social issues. Additional text on human rights and engagement New text on biodiversity as an investment risk and how we engage.
5.1 Listed equities	5	Addition	More detail on integration process.
5.2 Private markets	5/6	Addition	Additional information on annual questionnaire and involvement in industry initiatives.
5.3 Fixed income	6	Amendment	Moved text on engagement.
5.4 Real estate	6/7	Amendment	Updated for progress made ahead of launch.
5.5 External manager selection	7	Addition	Update on engagement to support net zero; PRI assessment considered in selection and monitoring.
5.6 Climate change	7/8 8	Amendment Addition	Amendment to wording on a just transition and expectations of companies. Additional wording on Net Zero and stewardship.
6. Stewardship	8	Amendment	Inserted 'where appropriate' regarding litigation.
6.2 Engagement	11	Amendment	Engagement with wider industry to create stable environment.
6.2.2 Escalation	12	Addition	Extra tools as part of escalation.
6.2.3 Exclusions	12/13	Amendments and addition	Revenue thresholds reduced for thermal coal and oil sands. Controversial weapons exclusions broadened. New exclusion for thermal coal power generation.
9. Training and assistance	14	Addition	Included wider colleagues.

6 VOTING GUIDELINES - KEY CHANGES

6.1 The Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2023 were also used in the review process. There are several minor amendments and proposed additions covering diversity and climate change.

6.2 Border to Coast's voting stance in relation to diversity representation at board level, for both gender and ethnicity, has been strengthened this year. This is to reflect the Financial Conduct Authority's listing rules and also expectations of FTSE 250 companies to be meeting the Parker Review recommendations.

6.3 Border to Coast has further strengthened its approach to climate-related voting and will now include a fifth Climate Action 100+ (CA100+) Net Zero Benchmark indicator covering a company's decarbonisation strategy. THey are also adding the Urgewald Global Coal Exit List to the industry benchmarks (A100+, Transition Pathway Initiative) used to assess whether companies are making sufficient progress.

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

Section	Page	Type of Change	Rationale
Diversity	5	Amendment Addition	Expectations of UK companies on board gender diversity. FTSE 250 on racial diversity and US companies.
Audit	9	Addition	Plans to retender.
Shareholder proposals	12	Addition	General stance on proposals aligned with Paris Agreement.
Climate change	13	Addition Addition Amendment Addition	5^{th} CA100+ Net Zero Benchmark indicator added. Adding Urgewald Global Coal Exit List as industry benchmark tool. Caveat around TPI scoring and data. Stance on Say on Climate items not aligned with Paris Agreement.

7. CLIMATE CHANGE POLICY - KEY CHANGES

7.1 The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. The climate change approaches of the other seven LGPS pools have also been reviewed.

7.2 The main changes reflect the work undertaken to support Border to Coast's Net Zero commitment and are detailed below.

7.3 Additional wording has been added about why climate change is important to Border to Coast as an investor. This includes reference to the role Border to Coast needs to play through engagement and the investment opportunities for investors and how this will support Partner Funds.

7.4 Reference to Border to Coast's Net Zero targets have been included in the 'Our ambition – Net Zero section' with detail on the specific targets for carbon reduction alignment and engagement. This has been moved from a later section of the policy.

7.5 A paragraph has been included on how Border to Coast has considered the different climate scenarios available, those which they will be using and the limitations and associated risks of climate modelling.

7.6 Border to Coast's approach to exclusions has been updated in line with the RI Policy with the lower revenue thresholds for public market companies for thermal coal and oils sands production (now aligned with illiquid assets) and the introduction of an exclusion for thermal coal power generation.

7.7 Additional wording has been added on the importance of engagement in meeting Border to Coast's Net Zero goal and the targets they have set. The focus actions for the next and subsequent years have been updated which includes their voting approach to 'Say on Climate' resolutions and climate-related shareholder resolutions.

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

Section	Page	Type of Change	Rationale
2.2 Why climate change is important to us	3	Addition Amendment	Additional wording taken from the Climate Change Report – importance, our role, and opportunities. Revision to just transition wording.
3.1 Our ambition – Net zero	5/6	Addition	Inserted reference to our Net Zero targets – wording moved from 5.2
3.3 Division of roles and responsibilities	6	Addition	Wording in line with Climate Change Report.
4.1 How we identify climate- related risks	7	Revision	Wording in line with Climate Change Report.
4.2 How we assess climate- related risks and opportunities	8	Addition	Update on climate change scenario analysis. – in line with Climate Change Report.

5.1 Our approach to investing	8/9	Addition Amendment Addition	Additional wording on consideration when excluding. Revise exclusion threshold for thermal coal and oil sands. New exclusion on thermal coal power generation.
5.2 Acting within different asset classes	9	Amendment Addition	Paragraph moved to 3.1. Approach for Real Estate.
6.1 Our approach to engagement	10/11	Amendment Addition Amendment / addition	Inserted 'where considered to be appropriate' regarding litigation. Reference to engagement and targets. Focus areas including voting and engagement.
7. Disclosures and reporting	12	Amendment	Revised wording on transparency and reporting.

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 (including Climate Change) and Corporate Governance.

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Responsible Investment Policy

Border to Coast Pensions Partnership

Live from: January 2024

Responsible Investment Policy

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

1. Introduction

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

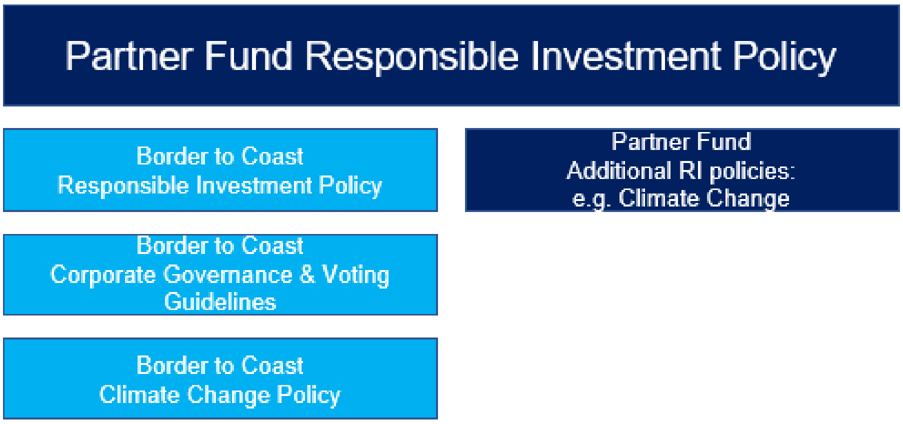
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and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

Border to Coast is an active owner and steward of its investments across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. As a long-term investor and representative of asset owners, we hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practices active ownership through voting, monitoring companies, engagement and litigation.

1.1. Policy framework

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

RI Policy Framework



2. What is responsible investment?

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

Investment stewardship includes active ownership; using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance. We believe that our responsible investment approach and associated activities help identify and manage non-financial risks and so should add value to our investment portfolios over the long-term.

3. Governance and Implementation

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

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

4. Skills and competency

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

5. Integrating RI into investment decisions

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

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

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

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. We engage with companies on human rights as part of our social priority engagement theme, engaging on modern slavery and labour practices and human rights due diligence where companies operate in high-risk areas. We have incorporated considerations into how we exercise our votes at company meetings.

Biodiversity loss is increasingly seen as posing a risk to financial markets. Over half of global GDP is dependent on nature-based services[1], and looking ten years out, six of the top ten global risks identified by the World Economic Forum are climate and environmental related. We currently address biodiversity issues through engagement with companies and governments on issues including deforestation, natural resource management and climate change.

Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

Whilst the specific aspects and form of ESG integration and stewardship vary across asset classes, the overarching principles outlined in this policy are applied to all assets of Border to

[1] World Economic Forum

Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

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

We use third-party ESG data and research from specialist providers alongside general stock and sector research. ESG factors are incorporated into analysis and research templates as part of the decision-making process. We consider the financial materiality of ESG factors, which will vary depending on the geography, industry and individual company. For companies subject to very severe controversies as defined by our third-party data provider, UN Global Compact breaches, with elevated ESG risk, or subject to securities litigation, a more detailed research and climate risk template is completed which is also used to inform engagement and voting. The RI team as subject matter experts support the portfolio managers, and the Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement are also part of the investment process with information from engagement meetings shared with the team to increase and maintain knowledge, and portfolio managers involved in engagement meetings and the voting decision making process.

5.2. Private markets

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

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

- We engage in a range of industry initiatives which seek to improve transparency and disclosure of ESG and carbon data within private markets.

5.3. Fixed income

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

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

The approach to engagement can also differ as engagement with sovereigns is much more difficult than with companies.

5.4. Real Estate

Border to Coast is preparing to launch funds to make Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process is an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies.

A Responsible Investment framework has been developed for Real Estate to ensure the integration of ESG factors throughout the investment process. This covers the stages of selection, appointment and monitoring and a feedback loop to report performance and review processes. It includes pre-investment, post-acquisition and post-investment phases. An ESG scorecard will be developed tailored to the direct or indirect property fund, monitoring key performance indicators such as energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). For direct real estate, the RI Policy will be implemented through ESG strategies embedded into the asset management plans of individual properties; this is to ensure a perpetual cycle of review and improvement against measurable standards.

5.5. External manager selection

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

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

The monitoring of appointed managers also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are expected to be signatories or comply with international standards applicable to their geographical location. We encourage managers to become signatories to the UN-supported Principles for Responsible Investment[2] ('PRI') and will consider the PRI assessment results in the selection and monitoring of managers. We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

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

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

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves minimising and managing social risks, seeking to maximise social opportunities, and a focus on the place based economic impacts of the transition to net zero. We expect companies to consider this social dimension in decarbonisation strategies and engage with companies, directly and through collaboration with other investors.

We have committed to a net zero carbon emissions target by 2050, or sooner for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC and have developed an implementation plan which sets out the four pillars of our approach.

Stewardship is an important element of meeting this goal and we engage with companies on climate-related risks and opportunities and use our voting rights to hold boards to account.

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

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[2] 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.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation, where appropriate. As a responsible shareholder, we are committed to being a signatory to the UK Stewardship Code[3] and were accepted as a signatory in March 2022. We are also a signatory to the PRI.

6.1. Voting

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

6.1.1. Use of proxy advisors

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

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

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

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

[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/directors/corporate-governance-and-stewardship

to enable stock to be recalled prior to a shareholder vote. Stock is recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

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

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

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

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

6.2. Engagement

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

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

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

- Border to Coast and all eleven Partner Funds are members of the Local Authority Pension Fund Forum ('LAPFF'). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, Border to Coast use an external Voting and Engagement service provider. We provide input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate in some of the engagements undertaken on our behalf.
- Engagement takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these cover environmental, social, and governance issues as well as UN Global Compact[4] breaches or OECD Guidelines[5] for Multinational Enterprises breaches.
- We expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policies.

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

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

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

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

We encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

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

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

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

As a responsible investor we also engage with regulators, public policy makers, and other financial market participants on systemic risks to help create a stable environment to enhance long-term returns.

6.2.1. Engagement themes

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

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

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

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

The key engagement themes following the 2021 review are:

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

6.2.2. Escalation

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

6.2.3 Exclusions

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

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

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

Thermal coal and oil sands:

Using these criteria, due to the potential for stranded assets and the significant carbon emissions of certain fossil fuels, we will not invest in public market companies or illiquid assets with more than 25% of revenues derived from thermal coal and oil sands, unless there are exceptional circumstances. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.

We will exclude public market companies in developed markets with >50% revenue derived from thermal coal power generation. For companies in emerging markets the revenue threshold is >70%, this is to reflect our support of a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. We will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

Any public market companies excluded will be reviewed with business strategies and transition plans assessed for potential reinstatement.

Controversial weapons:

Certain weapons are considered to be unacceptable as they may have an indiscriminate and disproportional impact on civilians during and after military conflicts. Several International Conventions and Treaties have been developed intended to prohibit or limit their use. We will therefore not invest in companies contravening the Anti-Personnel Landmines Treaty (1997), Chemical Weapons Convention (1997), the Biological Weapons Convention (1975), and the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions, and in some countries legislation also prohibits the direct and indirect financing of these weapons. Therefore, as a responsible investor we will not invest in the following, where companies are contravening the above treaties and conventions:

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

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

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

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

6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. The external Voting and Engagement provider is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

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

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, where appropriate, we participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed. This is done by making publicly available RI and voting policies; publishing voting activity on our **website** quarterly; reporting on engagement and RI activities to the Partner Funds quarterly, and in our annual RI and Stewardship report.

We also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast offers the Partner Funds training on RI and ESG issues. Where requested, assistance is given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

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

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest, this includes potential conflicts in relation to stewardship.

Appendix A: Third-party Providers

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

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Climate Change Policy

Border to Coast Pensions Partnership

Live from: January 2024

Climate Change Policy

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

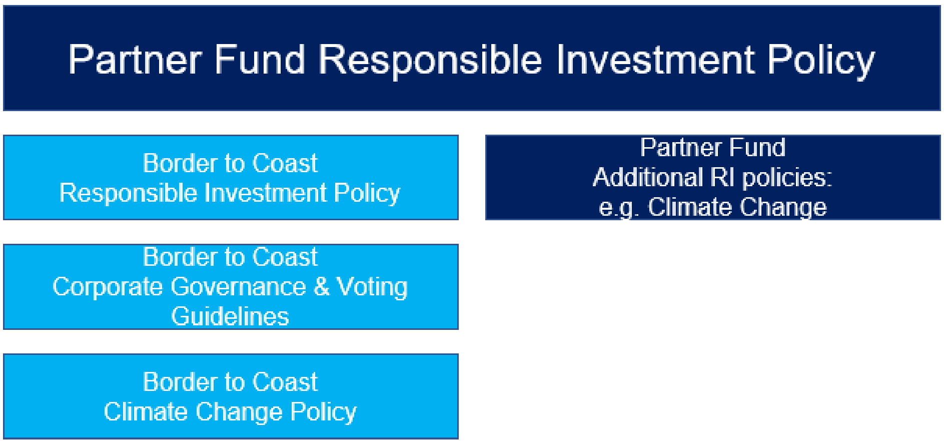
1 Introduction

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

1.1 Policy framework

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

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

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

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

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

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

2.2 Why climate change is important to us

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

As a long-term and responsible investor, we have a duty to ensure our investments are well-positioned to manage the physical climate risks, regulations, and policies that are developed to promote a Net Zero economy. Being an active investor, we have the skills and capabilities to deliver investments that will support the necessary transition to Net Zero. Representing our asset owners, we have a role to play in influencing those companies and organisations in which we invest to take into account climate change; this includes providing better climate-related financial disclosures, which assist us in making better-informed investment decisions.

While climate change creates risks to investors, there are also investment opportunities related to the transition to a lower carbon economy. The transition to a Net Zero economy will require new business models, new companies and new infrastructure. These represent potentially profitable investments that will help our Partner Funds look after beneficiaries for decades to come.

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

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

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

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

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

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension into net zero transition strategies and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce, communities in which the companies operate, supply chains, and customers. Whilst our specific expectations differ depending upon the sector and market, we expect all companies to consider the potential stakeholder risks and opportunities associated with decarbonisation.

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

2.3 How we execute our climate change strategy

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

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

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

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

2.4 Roadmap

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

3 Climate change strategy and governance

3.1 Our ambition – Net Zero

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

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

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

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

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

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with NZIF. We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc.). This covers approximately 57% of our AUM (at 31/03/2023) and we will look to increase coverage across the rest of our investments when appropriate.

We have set short and medium-term reduction targets for carbon emissions, targeting a 53% reduction in financed emissions (normalised by AUM) by 2025 and a 66% reduction by 2030 in order to reach 100% emission reductions by 2050 or sooner. We have also set Net Zero alignment targets for our portfolios based on specific assessment criteria with the aim of reaching 100% Net Zero alignment by 2040 and asset class level engagement targets with 80% of finance emissions to be under engagement by 2025, reaching 100% coverage by 2030.

More detail can be found in the Net Zero Implementation Plan on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

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

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

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

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

3.4 Training

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

3.5 Regulatory change management

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

4 Identification and assessment

4.1 How we identify climate-related risks

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

The risk relating to climate change is integrated into the wider Border to Coast risk management framework and considered within the related components of our Risk Appetite Framework, such as strategy, customer outcomes and stewardship. The Company operates a risk management framework consistent with the principles of the ‘three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company’s governance, risk and control framework.

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

4.2 How we assess climate-related risks and opportunities

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

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

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

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[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.

We understand that scenario analysis can be useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve and are aware of the current limitations of the models and associated risks of using this information to make informed investment decisions. We have used the Climate Financial Risk Forum's selection framework to consider climate scenario options and based on this framework will use the Regional Model of Investment and Development ("REMIND") model scenarios which come from the Network for Greening the Financial System ("NGFS"), a group of central banks and supervisors in the financial system. We will be considering a 1.5°C disorderly scenario, 2.0°C scenarios (orderly and disorderly) and the 3.0°C 'Hot House World' scenario. We will initially conduct scenario analysis on our listed equity and investment grade credit funds.

5 Investment strategy

5.1 Our approach to investing

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

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

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

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

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

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

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. Using these criteria, due to the potential for stranded assets, and the significant carbon emissions of certain fossil fuels we will not invest in public market companies or illiquid assets with >25% of revenue derived from thermal coal and oil sands, unless there are exceptional circumstances.

We will exclude public market companies in developed markets with >50% revenue derived from thermal coal power generation. For companies in emerging markets the revenue threshold is >70%, this is to reflect our support of a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. We will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

Any public market companies excluded will be reviewed with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

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

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

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

ESG risks, including climate change, are an integral part of the due diligence process, including ongoing monitoring for our **Real Estate** funds. For all funds, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies, sectors and assets. We will look to assess and monitor all the funds against portfolio metrics in line with TCFD recommendations. For UK real estate, there is a blueprint and roadmap for Net-Zero Carbon, prepared by the selected third-party Investment Manager ('TPIM') working with an external expert (Verco) to understand (I) current carbon baselines (II) carbon reductions and costs to reduce global warming to 1.5 degrees and (III) high risk assets within their client portfolios. This will be of significant benefit to Border to Coast and the real estate funds as they evolve.

5.3 Working with External Managers

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

6 Engagement and advocacy

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

6.1 Our approach to engagement

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

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

Engagement is the primary mechanism for driving alignment to Net Zero in our portfolio companies and thereby meeting our Net Zero targets, both at asset class and portfolio level, as well as for driving real-world decarbonisation. We have therefore set asset class level engagement targets with 80% of financed emissions to be under engagement by 2025, reaching 100% coverage by 2030.

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

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

- When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI, CA 100+ Net Zero Company Benchmark and the Urgewald Global Coal Exit List. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.

- We will generally vote in favour of shareholder resolutions that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.
- We will vote against management 'Say on Climate' resolutions that are not aligned with the Paris climate agreement.
- We will co-file shareholder resolutions at company AGMs on climate risk disclosure, emission reduction targets, transition plans, and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability, disclosure of climate risk and to publish greenhouse gas emissions reduction targets in line with the TCFD recommendations.
- Engage with the largest emitters across our portfolios on transition plans and science aligned capital expenditure plans.
- Engage with the banking sector as it plays a pivotal role in the transition to a low-carbon economy.
- Engage with our largest portfolio emitters and all fossil fuel companies and banks subject to votes against management due to failure to meet our climate policies.
- Support a Just Transition through collaboration with other investors and consider in our engagement and voting.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Implementing our net zero stewardship strategy developed using IIGCC's Net Zero Stewardship Toolkit.
- Use carbon footprints, the TPI toolkit, CA100+ Net Zero Company Benchmark, SBTi along with other data sources to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of organisations such as the IIGCC. We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

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

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

- We disclose our voting activity and report on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclose climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.

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