



Minutes of the Border to Coast Joint Committee
Monday 11 March 2019 - County Hall, Northallerton

Present

Members

Councillor Doug McMurdo (Chair)
Councillor Steve Bloundele, Councillor Mark Davinson,
Councillor Tim Evans, Councillor John Holtby, Councillor
Eileen Leask, Councillor Bob Stevens, Councillor Mick
Stowe, Councillor Eddie Strengiel, Councillor Helen Swiers,
Councillor Jeff Watson and Councillor Mel Worth

Nicholas Wirz (Scheme Member Representative)

**Border to Coast
Ltd
Representatives**

Rachel Elwell, Chris Hitchen and Fiona Miller

Councillor Sue Ellis, Shareholder non-executive directors on
BCPP Ltd's Board of Directors ("Partner Fund nominated
NEDs")

Fund Officers

Ian Bainbridge, Peter George, Clare Gorman, George
Graham, Neil Mason, Julie McCabe, Michael Nicolaou, Nick
Orton, Jo Ray and Gill Richards

**Statutory Officer
Representative(s)**

Gary Fielding

**Apologies were
received from**

Alison Clark and Councillor John Weighell

**1 RESULT OF THE ELECTION FOR A SCHEME MEMBER OBSERVER AND
SUBSTITUTE TO THE JOINT COMMITTEE - GEORGE GRAHAM**

A report was submitted that informed the Committee of the results of the election held to fill the role of Scheme Member Observer on the Joint Committee.

Members noted the election of Nicholas Wirz of Tyne and Wear Pension Fund to the Committee as a Scheme Member Observer and Deirdre Burnet from Cumbria Pension Fund as substitute.

The Chair welcomed Nicholas Wirz to his first meeting of the Joint Committee.

N Wirz thanked the Chair for the welcome and stated that he appreciated the opportunity to bring scheme member opinion to the Committee.

2 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

Apologies were noted as above. There were no declarations of interest.

3 MINUTES OF THE MEETING HELD 21 NOVEMBER 2018

RESOLVED: That the minutes of the meeting held on 21st November 2018 be agreed as a true record.

4 ELECTIONS FOR THE ROLE OF CHAIR AND VICE CHAIR OF THE JOINT COMMITTEE AND NOMINEE FOR THE DIRECTORSHIP OF BORDER TO COAST PENSIONS PARTNERSHIP LIMITED ("THE COMPANY") - IAN BAINBRIDGE

The Committee considered a report which set out the process by which the next meeting of the Joint Committee would select its Chair and Vice-Chair and make a nomination to the Board of Border to Coast for a Non-Executive Director to sit on the Company Board.

The role profiles for the Chair, Vice-Chair and Non-Executive Director were attached as appendices to the report for the Committee's information.

With regard to the vacant position for a Non-Executive Director, the Committee discussed the difficulties caused by the differing attitudes of administering authorities towards conflicts of interest. It was decided to seek further legal advice on the matter.

RESOLVED: That:

- i) Any member wishing to become either Chair or Vice-Chair or to be nominated as a Non-Executive Director of the Company are asked to circulate a short supporting statement to all members of the Joint Committee (through the Secretariat) not less than 14 days before the next meeting of the Joint Committee. For the Non-Executive Director role, members are asked that the supporting statement addresses the key provisions of the Job Description as this would be subsequently used to support the approval process.
- ii) Members would be balloted at the June meeting of the Joint Committee to nominate a candidate to hold office as a Non-Executive Director of Border to Coast for a term of two years, subject to legal advice.
- iii) That the nomination for the position of Non-Executive Director would be determined by exhaustive ballot.
- iv) That an exhaustive ballot would be held to select the Joint Committee Chair for 2019-2020.

- v) That an exhaustive ballot would be held to select the Joint Committee Vice-Chair for 2019-2020.

5 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE

A report was submitted that gave details of the current Joint Committee budgetary position and suggested a budget for 2019-2020.

The Committee was reminded that at its meeting in January 2018 a budget of £30,000 was approved to cover the nine month period from July 2018 to March 2019.

The report detailed expenditure that had been incurred or was forecast to be incurred before the year end.

It was noted that overall, subject to the requirement for additional legal work, the forecast expenditure would be broadly in line with the budget.

It was proposed that the budget for 2019-2020 should be £40,000. This was in line with the budget for the nine month period in 2018/2019.

RESOLVED: That the Committee:

- i) Note the current budget position for 2018/2019.
- ii) Approve a budget of £40,000 for 2019-2020.

6 GOVERNANCE ARRANGEMENTS - RACHEL ELWELL AND IAN BAINBRIDGE

A report was considered that updated the Committee on the outcome of a meeting of the Governance Sub-Group which was held to discuss the roles of the administering authorities as both investors and shareholders of Border to Coast. The Sub-Group also reviewed the Terms of Reference of the Joint Committee.

The Governance Sub-Group reviewed the roles of investors and shareholders as set out in the Governance Charter and how each interacted with Border to Coast. It was agreed that that the roles and interaction as defined in the Charter were a good representation of the position and provided sufficient clarity as to the differences between the roles.

It was proposed that the Partner Fund nominated NEDs should be co-opted onto the Joint Committee as non-voting representatives of Border to Coast.

It was suggested that a regular informal meeting of shareholders be held on the same day as the Joint Committee to discuss Border to Coast company business.

The Terms of Reference of the Joint Committee were also discussed and they were considered to be reasonable and not in need of change for the moment. It was

noted that they would need to be kept under review as arrangements within the Border to Coast pool mature and as guidance from MHCLG develops.

RESOLVED:

- i) That the Partner Fund nominated Non-Executive Directors be co-opted onto the Joint Committee as non-voting members.
- ii) That the Governance Charter, as included at Appendix A to the report, be approved for publication on the Border to Coast website.

7 MHCLG - STATUTORY GUIDANCE ON ASSET POOLING - NICK ORTON AND FIONA MILLER

A report was submitted to enable consideration of a response on behalf of the Joint Committee to the consultation on MHCLG's draft statutory guidance on pooling.

The paper outlined a proposed draft response to the consultation on behalf of the Committee which took into account common elements from draft responses from Partner Funds which had been sighted so far as well as highlighting aspects of the proposed guidance which dealt with the role of the Joint Committee.

The Committee noted that the draft guidance was broadly supportive of how Border to Coast had approached pooling. However there were areas where clarification or tightening of the drafting of the guidance would be requested; these were detailed within the report.

It was felt that there were two particular areas where changes to the guidance should be requested which were:

- Regular review of active and passive management (paragraph 3.6 of the guidance) where the premise on which the guidance was based that passive management delivers better net of fees long-term risk-adjusted returns was disputed; and
- 2019-2091 Annual Report and Accounts (section 8 of the guidance) where it was thought that detailed information on reporting requirements should not be included as it was enough to state the CIPFA guidance should be followed.

RESOLVED:

- i) That a formal response to the consultation should be sent on behalf of the Joint Committee be drafted based on the comments made in section 4 of the report.
- ii) If changes are required the Joint Committee delegates the authority to finalise the response to the Chair and Vice-Chair of the Officer Operations Group in consultation with the Chair and Vice-Chair of the Joint Committee.

8 FEEDBACK ON NATIONAL WORKING GROUPS - JO RAY

Jo Ray presented a report which updated the Committee on matters from the meetings of the National Working Groups.

Officers had attended meetings of the Cross Pool Collaboration Group, the Cross Pool Client Working Group and the Cross Pool Responsible Investment Group. There had been no meetings of the Infrastructure Group or the Tax Group.

Members noted that work and engagement with different agencies continued on a range of matters to ensure the LGPS could secure best value and exercise its collaborative influence wherever appropriate. It was, however, becoming more apparent that the value from the National Working Groups was diminishing and they were meeting less frequently as pools became more established and identified their own way forward. Specific issues could be raised in separate papers rather than requiring a dedicated report.

The Committee decided that there was no longer a need to continue with the report and thanked Jo Ray for her work on the report over the years.

RESOLVED:

- i) That the report be noted.
- ii) That there was no longer a need to continue with the report.

Exclusion of the Public and Press

9 UPDATE FROM BORDER TO COAST CHAIR

Chris Hitchin, Chair of Border to Coast, gave an update on the work of the Board since the last meeting of the Committee. Including:

- Meetings of the Board, the Audit and Risk Committee and the Remuneration Committee.
- Involvement with the shaping of the sub-funds to ensure they met the needs of the Partner Funds.
- Evaluation of the effectiveness of the Board.
- Skills required for the future.
- Training on FCA certification; and
- The appointment of internal and external auditors.

RESOLVED: That the update be noted.

10 CEO REPORT - RACHEL ELWELL

The Committee considered the CEO's report for the period since the last Joint Committee meeting.

Members were informed that the last two months had seen another period of significant interaction with and between Partner Funds. A governance map had been developed for Partner Funds that set out the likely timeline and hence the workload for Pensions officers and Committees during 2019; this was attached as an appendix to the report.

Work was progressing on the property pooling solution. A meeting had been held with three of the funds with direct segregated portfolio's and a detailed data request had been issued to all Partner Funds in early February.

With regard to the Responsible Investment (RI) Policy, confirmation had been received from all Partner Funds that their Committees had agreed the Border to Coast RI Policy for adoption into their own ISS.

R Elwell informed the Committee that Border to Coast was keen to hear feedback on the first review process which would help with the next review process which would take place over the summer. Any feedback should be sent to Jane Firth.

Members noted that all shareholders had formally approved the alternatives structure and Border to Coast officers were now working through the next phase of the implementation plan.

The Committee was informed that job offers had been extended to three graduates to work primarily across the Research and Risk functions.

Mat Dawson had resigned in February; he had accepted a job which enabled him to spend more time at home. R Elwell thanked him for all his work for Border to Coast.

The report contained a summary of transitions and performance. Given the short period covered there was no in depth performance information, this was expected to be developed as the sub-funds reach their one-year anniversary. The Committee was informed that to date performance was broadly in line with expectations.

There was an update on progress across the investment operations and corporate functions and the expected outturn for the Operating Budget based on the third quarter – there was no material change from the position reported at the last Joint Committee meeting.

RESOLVED: That the Committee:

- i) Note the report.
- ii) request that Partner Funds send feedback on the RI review process to Jane Firth.

11 BORDER TO COAST TRANSITION PLANNING 2019-2021 - RACHEL ELWELL

Members were reminded that in July 2018 the CEO had presented a paper to the Committee to facilitate a discussion about the process for working collectively and in partnership across the Border to Coast pool to identify the “building blocks” required to support Partner Funds’ strategic asset allocations. This had built on a framework looking at Partner Funds’ objectives, risk management, capacity and costs to propose an approach to prioritising capability build and enabling Partner Funds to participate in sub-fund design prior to launch; a summary of this was included within the report.

After 12 months of experience in working collectively in this way, it was thought it was an opportune time to review the process and understand whether it was working well both as a whole and also for each Partner Fund. Management Information had been developed to allow the Joint Committee and the Board to monitor progress in pooling Partner Fund assets. This was included within the report and as an appendix.

Key observations included:

- For most Partner Funds, initial indications suggested that the envisaged building blocks would meet strategic needs, although this was not the case for all. Discussions were ongoing in several areas and it was noted that Partner Funds may be required to compromise in order to facilitate a solution.
- The proportion of passive investment by Partner Funds would drive the level of assets transitioned, at least whilst the case for pooling of passive assets remained unclear. The terms under which Partner Funds invest passively were last reviewed in 2016; this could be reconsidered once ISS reviews are complete.
- Viability of sub-funds through the economic cycle was an important “red line” to consider in looking at sub-fund design. The evolution and implementation of Partner Funds’ investment strategies could impact this significantly.

Members were informed that in order to manage the strategic capability build, to understand implications for cost sharing and impact on other Partner Funds, Border to Coast was working with Partner Funds to understand planned changes to strategic asset allocation and would welcome the opportunity to contribute to Partner Funds’ thinking about implementation of changes in objectives, risk or liquidity profiles, whilst recognising that ultimately it is each Committee’s responsibility to balance strategic asset allocation with its approach to pooling. One Partner Fund was concerned that the speed of the introduction of new sub-funds was too fast and officers were being put under a lot of pressure. Others felt that the pace was appropriate.

R Elwell offered to provide more Border to Coast support to help ease the situation and was keen to hear further feedback on the specific situation as well as any issues or concerns from other Partner Funds.

RESOLVED: That the report be noted.

12 BORDER TO COAST ACS GLOBAL EQUITY ALPHA FUND - RACHEL ELWELL

A report was considered which provided an update on the launch of Border to Coast's second externally managed sub-fund, the Global Equity Alpha Fund (title subject to FCA approval).

An early draft amendment to the ACS was attached as an appendix for the Committee's information.

Officers were using a similar design and launch process to the approach used for the internally managed and UK Listed Alpha sub-funds launched in 2018. The working party of nominated Partner Fund pensions officers and advisors working with Border to Coast would also consider the draft amendment to the ACS prospectus that would be required for launch.

RESOLVED:

- i) That the progress on the Global Equity Alpha Fund be noted.
- ii) That the Committee delegate review and comment on the draft Prospectus to a working party of Partner Fund Officers under its terms of reference as referenced in paragraph 1.2 of the report.

13 BORDER TO COAST ALTERNATIVES CAPABILITY - RACHEL ELWELL

A report was submitted to update the Committee on the development of Border to Coast's Alternatives capability which had been identified as a priority for Partner Funds to benefit from the expected cost savings and access to investments afforded by Border to Coast investing on their behalf at scale.

The report included:

- An update on the Operating Model including the final model design, the shareholder documentation, the legal documentation and the expected time to launch.
- An overview of the Private Equity and Infrastructure offerings.
- An overview of the investment decision making and governance processes in respect of Alternatives.
- The financial implications of, and risks associated with, the Operating Model.

RESOLVED:

- i) That the Committee note the update on the Operating Model and investment and governance processes.
- ii) That the Committee note the overview of the Private Equity offering.
- iii) That the Committee delegate to Officers the authority to review the contractual documentation required to support the Infrastructure offering.

14 BORDER TO COAST ACS - FUTURE FIXED INCOME FUND OFFERINGS - RACHEL ELWELL

A report was considered which gave an update on Border to Coast's Fixed Income fund series launch which was targeted for Q4 2019 to mid-2020.

A similar design and launch process was being followed as for earlier sub-funds but following feedback on the equities process the report reflected potential options for the whole of the fixed income landscape rather than looking at one fund at a time. The report was being shared with the Committee earlier in the process that usual to facilitate discussion about direction of travel and to enable Partner Funds to work collaboratively.

A working party of nominated Partner Fund pensions officers and advisors together with Border to Coast had been considering the design of the Border to Coast ACS Fixed Income offering and at this stage Border to Coast was seeking indications of support for the design from Partner Funds to assess whether there was sufficient scale to launch the funds as envisaged.

Members were informed that at the Officer Operations Group on 21 January, reflecting earlier discussions, the following four fixed income sub-funds were proposed for consideration:

- Index-Linked Bonds
- Developed Market Sovereign Bonds
- Investment Grade Corporate Bonds
- Multi-Asset Credit (MAC)

There was strong Partner Fund interest in Multi-Asset Credit, as a diversifier to public equities, and there was an expectation of increases in the allocation to Investment Grade credit post the strategic asset allocation review.

The formal consultation with Pension Committees would take place during May/June 2019 for Investment Grade Credit and later in 2019 for Index-Linked Bonds and MAC.

RESOLVED: That the Committee note the proposed Fixed Income sub-fund design as set out in the report.

**15 STANDING ITEM - UPDATE ON EMERGING MATTERS - RACHEL
ELWELL/FIONA MILLER AND IAN BAINBRIDGE**

None.

CHAIR