



Agenda Item

Subject	Border to Coast Update	Status	For Publication
Report to	Authority	Date	12 September 2019
Report of	Fund Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

- 1.1 To make members aware of the latest developments within the Border to Coast Pensions Partnership.
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2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the update on the various streams of activity being undertaken in relation to Border to Coast.**
 - b. **Agree to indicate the Authority's continuing support for the appointment of Shareholder nominated Non-Executive Directors to the Board of the Company.**
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3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Border to Coast is the medium through which the Authority's investment strategy will be implemented and its effectiveness as a partnership is therefore crucial to the delivery of the investment returns required by the Authority.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

While the Authority remains responsible for defining its stance on Responsible Investment issues Border to Coast is the organisation which delivers this and the effectiveness of the Partnership is therefore central to delivery against this objective.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Effective oversight of the Authority's partnership arrangements and investment managers is a key element of delivering this objective.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report form part of the mitigations linked to the risk identified in relation to oversight of Border to Coast and achieving a product range from Border to Coast which meets the Authority's needs.

5 Background and Options

- 5.1 This report covers a range of activities associated with Border to Coast that have occurred over the last quarter. The Company will be making a presentation to provide further detail on some of these matters and provide members with the opportunity to discuss some of these matters in more detail.

Joint Committee

- 5.2 The Joint Committee met on 11 September and a verbal update will be provided by the Chair, who represents the Authority on the Joint Committee. The key items on the agenda were:
- a. Elections for the roles of Chair and Vice Chair of the Joint Committee and one vacancy for a shareholder nominated non-executive director.
 - b. Progress reports on the delivery of planned investment products
 - c. An update on the performance of both the company and the investment products already launched.

- 5.3 In relation to the election of Non-Executive Directors representing shareholders to the Board of the Company the legal advice provided by James Goudie QC indicates that subject to the agreement of appropriate dispensations by the relevant Standards Committee (or equivalent) there is no reason for this to create insurmountable conflicts. Mr Goudie has also provided a draft of what he feels would be a suitable dispensation which the Monitoring Officers of the Partner Funds are able to use or adapt to local circumstances if required. Partner Funds have been asked to indicate whether they remain supportive of the concept of shareholder nominated Non-Executives. Given the importance of continuing to connect the company to its roots in the public sector and the associated value system it is recommended that the Authority strongly support the concept.

Company Annual General Meeting and Shareholder Resolutions

- 5.4 The Company's Annual Meeting took place on 18 July. As with any meeting of this sort there were a number of formal business resolutions which required the endorsement of shareholders. Following consultation with the s41 members (in line with the constitutional provisions) the Authority's vote was cast in favour of the following resolutions:

- a. Approval of the Annual Report and Accounts, which is available at the following link <https://www.bordertocoast.org.uk/corporate-governance/>
 - b. The reappointment of KPMG as external auditors.
 - c. The annual review of both the conflicts of interest policy and the register of directors' interests.
 - d. To approve the reappointment of Enid Rowlands as an independent Non-Executive Director.
 - e. To approve the recruitment of a further independent Non-Executive Director with experience of working in a regulated asset management environment.
- 5.5 None of these resolutions raised fundamental issues, and the reappointment of Ms Rowlands provides stability within the Board at what is still an early stage in the development of the Company. The requirement for an additional Non-Executive flows from the Board's own assessment of its effectiveness and skills and therefore has to be regarded as evidence of a well-functioning Board, which is what we would want to see in any company in which we invest.

Progress on Alternatives Products

- 5.6 The Company continues to make progress on investing the funds committed to the three alternatives products. Commitments for the first year for Private Equity (£500m) and Infrastructure (£675m) are in excess of initial expectations, with 18 month commitments to Private Debt of £375m. The launch of the Private Debt product is scheduled for 8 October. This success presents the company with two challenges.
- a. Finding and fully evaluating sufficient high quality investments in the time available. In general the market has been very keen to engage with the Company about their forthcoming offerings so the supply seems likely to be available. The challenge may lie in the ability to conduct full due diligence in the required timescale, however, steps have been taken to expedite the previously planned procurement of a due diligence provider to support the team in this work which will reduce the potential risk of slippage here.
 - b. Having the resources available to provide effective oversight once funds have been committed to individual managers while also continuing to build a portfolio. This was an acknowledged weakness in SYPA's previous arrangements and is a risk that the Company takes seriously and it has adjusted its recruitment plans (without any overall budget impact) in order to ensure that sufficient resources are in place.
- 5.7 So far a commitment has been made to one private equity fund which has already drawn down a portion of the commitment and commitments to further funds are expected in this quarter.
- 5.8 At this stage no time frame has been fixed for the potential to transfer legacy alternative assets into the Border to Coast structures, however, officers will be developing a business case process which allows the Authority to determine which assets might benefit from being transferred, in order to realise any potential benefits as quickly as possible once the opportunity is available.

Progress on Fixed Income Products

- 5.9 At the time of writing the Company are examining responses to the tender for managers for the Investment Grade Credit Mandate which was discussed in some detail at the last meeting of the Authority, and if possible a verbal update will be provided at the meeting. Once the procurement process has been completed some

further due diligence will be undertaken by officers and advisers to determine that the product finally constructed will produce the characteristics that are exhibited by the current mandate in terms of low turnover, level of fees, and performance targets. Subject to the satisfactory conclusion of this due diligence the current Corporate Bond mandate would transfer into this fund. The aim is to transition assets into this new fund during January largely because of liquidity issues in these markets prior to Christmas and the timetable for all partner funds to complete their approval processes.

- 5.10 Alongside this the procurement process for the core manager for the Multi-Asset Credit (MAC) mandate has begun. Given the timescale for this procurement and the need to then procure a number of specialist managers the launch of this fund will be during the first half of 2020. As has been previously reported this mandate is the appropriate home for the current emerging market and high yield bond portfolios with the wider investment universe available through a MAC approach providing opportunities not previously available to SYPA. The remaining area for clarification in relation to this mandate is whether (or not) one or more of the “sleeves” within the overall portfolio is managed by the in house team. This is extremely important for SYPA in terms of the final blended fee representing good value for money while, for other funds investing, it would be a driver of potential savings. The Company rightly needs to go through a proper process to come to a decision on this matter and needs to engage with Partner Funds to ensure that they have confidence in the outcome (and will therefore invest). However, as building on the strength of the previous in house teams was seen by SYPA as a key selling point in the Border to Coast proposition this is an area where officers will continue to seek to achieve progress.

Additional Equity Products

- 5.11 A number of additional equity products are being discussed including an externally managed version of the Overseas Developed fund in which SYPA is an investor. With one exception the Authority has no immediate interest in these discussions. The area where we do have an interest is in discussion around the development of an Emerging Market product either alongside or building on the current fund in which SYPA is an investor. More detail on this will be reported when available.

Commercial Property

- 5.12 While in some senses commercial property is the simplest of asset classes to understand it is likely to be the most complex to transition into a pooled structure, hence it is currently last on the list and requires the longest preparation time. Currently 4 of the 12 funds (including SYPA) have direct property portfolios (i.e. they own actual buildings), with the remainder achieving their property exposure through investment in funds.
- 5.13 In general terms direct investment in core UK property can be achieved more cheaply than investing through funds. However, making the move from one to the other is difficult and can take some time. Border to Coast have begun the research phase of their work to develop products in this space and will be engaging with funds to develop a clear understanding of both the nature and cost of current holdings over coming months.
- 5.14 In terms of the SYPA commercial property portfolio Border to Coast are now providing an oversight service for the Authority replacing a previous arrangement that was unsustainable in the long term. This will facilitate this work and allows some steps to be taken to shape the future development of the portfolio with a view to eventual

pooling which should ultimately reduce the “churn” costs associated with property transitions. Additional steps to prepare the portfolio for transition to the Pool are addressed elsewhere on the agenda for this meeting.

Responsible Investment

- 5.15 More detail on this area is covered elsewhere on the agenda. However, the Company has published its first Annual Responsible Investment Report (available at this link https://www.bordertocoast.org.uk/?dlim_download_category=annual-responsible-investment-reports). This is an area that is important both to the Company and the Authority and it is clear that very significant progress has been made from what was, in effect, a standing start. Officers will continue to support the company in pushing forward with this work and have agreed to undertake a role in trying to co-ordinate the input of the 12 Border to Coast Partner Funds to the Local Authority Pension Fund Forum.
- 5.16 As reported elsewhere the work of the Climate Change Working Group will be feeding into the annual review of the Responsible Investment Policy which should come to the next meeting of the Authority.
- 5.17 The Company has recognised both the importance of and the resources required to properly fulfil all the various requirements in this area by appointing an analyst to assist the Head of Responsible Investment.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

Financial	There are no financial implications directly arising from this report.
Human Resources	None
ICT	None
Legal	None
Procurement	The awarding of work to Border to Coast without competition is covered by the “Teckal” exemption as a result of the way in which the company is structured. There are therefore no specific procurement implications. In addition Border to Coast uses compliant processes in order to procure fund managers to act on its behalf.

George Graham

Fund Director

Background Papers	
Document	Place of Inspection
Border to Coast Joint Committee Papers	https://meetings.southyorks.gov.uk/ieListMeetings.aspx?CId=441&Year=0&zTS=E