

<b>Subject</b>	<b>Approval of Border to Coast Investment Mandate</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	23 January 2020
<b>Report of</b>	Head of Investment Strategy		
<b>Equality Impact Assessment</b>	Not Required	<b>Attached</b>	No
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## 1. **Purpose of the Report**

- 1.1 To secure approval for the investment mandate for the Border to Coast Index-Linked Gilt product.

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## 2 **Recommendation(s)**

### 2.1 **Members are recommended to:**

**Approve the investment mandate for the Index-Linked Gilt Border to Coast product. Note that the level of commitment to this product will be determined at the time of launch by the Head of Investment Strategy having regard to the Strategic Asset Allocation under existing delegation arrangements.**

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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.

Given the improved funding level, Index-Linked Gilts will remain an important asset class with regard to de-risking of the Fund's assets.

## 4. **Implications for the Corporate Risk Register**

- 4.1 The actions outlined in this report specifically address the identified risk that Border to Coast does not develop products which meet the requirements of the Authority's investment strategy.

## 5. **Background**

- 5.1 Border to Coast have now reached the stage where they are developing the mandates and investment structures for the fixed income products. In the same way as has been done for previous products this report sets out the detail of the mandate for Index-Linked Gilts for endorsement prior to officers undertaking the work necessary to transition assets or make new investments in the new structure.
- 5.2 Index linked gilts represent the most traditional of the fixed income sub asset classes and Border to Coast are currently proposing to offer an internally managed ACS sub fund with a modest out performance target of 15-25bps. This would be achieved by the opportunity to hold off benchmark positions in corporate and supra-national index linked bonds in order to generate this excess return not by playing the duration curve. This proposal broadly mirrors the mandate for SYPA's current index-linked allocation.
- 5.3 Our Government Index-Linked Gilts currently act as collateral for our equity protection policy but we still have £170m of corporate index-linked bonds that would be able to transition to this sub-fund at this moment in time. Other partner funds also use some of their holdings as collateral but at this stage it is thought that £1bn of bonds would be available to seed the new fund and at this size Border to Coast think that it is viable to launch the Fund.
- 5.4 Final details in terms of the overall duration of the portfolio remain to be finalised as the Partner Funds currently have a mix of mandates which are measured against the over 5 year or over 15 year index. SYPA currently uses the over 15 year index but in terms of duration the over 5 year index is only 4.38 years lower and the yield differential is 0.13% lower on the over 5 year index. The over 5 year index is larger having 7 more issues but not significantly larger.
- 5.5 In relation to this product the Head of Investment Strategy will determine the amount of assets to either transition into or invest into the fund, taking account of the strategic asset allocation at the time and the findings of the Investment Strategy Review when available. This reflects the current delegation arrangements.

## 6. **Implications**

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

Financial	The fees charged in relation to this fixed income product are likely to be around 3bps as the portfolio management costs are fixed – part of a PM's time, low research costs, indices, Bloomberg and contribution to overheads. Variable costs for depositary and custody are the same as for other sub-funds, approx. 1bp and stock lending revenues would negate some of these costs. This is in line with passive costs whereas market quoted fees for separately managed accounts range between 13-25bps for index-linked strategies.
Human Resources	None
ICT	None
Legal	This fixed income product will be an additional sub fund of the existing Authorised Contractual Scheme (ACS) and therefore while there will need to be a review of the detailed prospectus, no fundamental legal issues are raised by extending this structure.

Procurement	This is expected to be an internally managed sub fund and selection is not a procurement and therefore it is a matter that remains at the discretion of Border to Coast as the fund manager.
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**Sharon Smith**

**Head of Investment Strategy**

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
None	