

# Public Document Pack



**PENSIONS PARTNERSHIP**

**BCPP JOINT COMMITTEE**

## **AGENDA**

**Venue:** Northallerton County Council Offices, County Hall, Northallerton DL7 8AD

**Date:** Tuesday, 8 March 2022

**Time:** 1.45 pm

### **Membership:**

#### **Chair:-**

Cllr Doug McMurdo

Bedfordshire Pension Fund

#### **Vice Chair**

Cllr David Coupe

Teesside Pension Fund

#### **Membership:-**

Cllr Mel Worth

Cumbria Pension Fund

Cllr Bill Kellett

Durham Pension Fund

Cllr David Rudd

East Riding Pension Fund

Cllr Eddie Strengiel

Lincolnshire Pension Fund

Cllr Patrick Mulligan

North Yorkshire Pension Fund

Cllr John Mounsey

South Yorkshire Pension Fund

Cllr Nick Harrison

Surrey Pension Fund

Cllr Wilf Flynn

Tyne & Wear Pension Fund

Cllr John Horner

Warwickshire Pension Fund

#### **Scheme Member Representatives**

Deidre Burnett

Cumbria LPB

Nicholas Wirz

Tyne & Wear LPB

## **Terms of Reference of the BCPP Joint Committee**

1. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.
2. The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

### **2.1 Phase 2 – Post Establishment and Commencement of Operations**

- 2.1.1 To facilitate the adoption by the Authorities of relevant contracts and policies.
- 2.1.2 To consider requests for the creation of additional ACS sub-funds (or new collective investment vehicles) and to make recommendations to the BCPP Board as to the creation of additional sub-funds (or new collective investment vehicles).
- 2.1.3 To consider from time to time the range of sub-funds offered and to make recommendations as to the winding up and transfer of sub-funds to the BCPP Board.
- 2.1.4 To review and comment on the draft application form for each additional individual ACS sub-fund on behalf of the Authorities prior to the Financial Conduct approval (or the draft contractual documents for any new collective investment vehicle).
- 2.1.5 To formulate and propose any common voting policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.6 To formulate and propose any common ESG/RI policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.7 To formulate and propose any common conflicts policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.8 To agree on behalf of the Authorities high level transition plans on behalf of the Authorities for approval by the Authorities for the transfer of BCPP assets.
- 2.1.9 To oversee performance of the BCPP Pool as a whole and of individual sub-funds by receiving reports from the BCPP Board and taking advice from the Officer Operations Group on those reports along with any external investment advice that it deems necessary.
- 2.1.10 To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

## **AGENDA**

| <b>Item</b> | <b>Subject</b>   | <b>Page</b>   |
|-------------|--|---------------|
| 1           | <b>Apologies/Declarations of Interest</b>  |               |
| 2           | <b>Minutes of the Meeting held on 23 November 2021</b>   | 5 - 12        |
| 3           | <b>Ratification of Decision Taken at the 23 November Meeting - Ian Bainbridge</b>  | 13 - 14       |
| 4           | <b>Schedule of Future Meetings - George Graham</b>   | 15 - 18       |
| 5           | <b>Annual Elections - George Graham</b>  | 19 - 28       |
| 6           | <b>Joint Committee Budget - Ian Bainbridge</b>   | 29 - 30       |
| 7           | <b>2021 Partner Fund Satisfaction Survey - Rachel Elwell</b>   | 31 - 36       |
| 8           | <b>Market Review - John Harrison</b>   | 37 - 42       |
|             | <b><u>Exclusion of the Public and Press</u></b>  |               |
| *9          | <b>Shareholder Governance Review - Rachel Elwell and Ian Bainbridge (Exemption Paragraph 3)</b>                            | 43 - 50       |
| *10         | <b>Emerging Market Equity Alpha Fund Launch - Graham Long (Exemption Paragraph 3)</b>                                      | 51 - 58       |
| *11         | <b>CEO Report February 2022 - Rachel Elwell (Exemption Paragraph 3)</b>  | 59 - 76       |
| *12         | <b>Investment Review Quarter Ended 31 December 2021 - John Harrison, Mark Lyon and Graham Long (Exemption Paragraph 3)</b> | 77 - 88       |
| *13         | <b>Standing Item - Update on emerging Matters - Rachel Elwell, Fiona Miller and Ian Bainbridge (Exemption Paragraph 3)</b> | Verbal Report |
|             | <b>Glossary of Terms</b>   |               |

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## Minutes of the Border to Coast Joint Committee

Tuesday, 23 November 2021 - Border to Coast, Toronto Square, Leeds

### Present

#### Members

Councillor Doug McMurdo (Chair)  
Councillor Wilf Flynn, Councillor Nick Harrison, Councillor John Mounsey, Councillor Patrick Mulligan, Councillor David Rudd and Councillor Mel Worth  
Nicholas Wirz (Scheme Member Representative)

#### Border to Coast Ltd Representatives

Rachel Elwell, Daniel Booth, Chris Hitchen, Graham Long, Fiona Miller and Andrew Stone

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

#### Fund Officers

Ian Bainbridge, Nick Orton, Jo Ray and Gill Richards

#### Statutory Officer Representative(s)

George Graham

#### Apologies were received from

Councillor John Horner, Councillor Eddie Strengeil, Councillor John Holtby and Deidre Burnet

### 1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting. Apologies were noted as above.

Members felt that, under the current circumstances, the venue felt a little crowded. It was suggested that an alternative venue be looked at for the next meeting of the Committee.

The Chair announced that the Committee was not quorate. Any decisions would be made in principle and ratified at the next meeting of the Committee, this would allow Border to Coast to proceed with policies and legal advice where necessary.

There were no declarations of interest.

### 2 MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2021

RESOLVED – That the minutes of the meeting held on 30th September 2021 be agreed as a true record.

### **3 COVID-19 UPDATE**

It was noted that the situation had not changed since the last meeting of the Committee.

### **4 JOINT COMMITTEE BUDGET**

A report was submitted which gave an update on the budgetary position for 2021/22.

It was noted that, to date, two items of expenditure had been committed against the budget.

These were:

- Secretariat support to the Joint Committee from South Yorkshire Pensions Authority at an estimated cost of £1,600 for the year.
- Legal work to review the alternatives series 2 legal documentation including the Limited Partnership Agreement, the Subscription Agreement and the Investment Memorandum. The work had been commissioned from Burness Paull at an estimated cost of £9,500.

N Wirz questioned whether any other firms had been approached with regard to the legal work to compare costs.

I Bainbridge informed the Committee that the work was a follow on from series 1 and therefore no one else had been approached as the Partner Funds had supported the choice of Burness Paull for that work.

The Committee was informed that there may also be a further charge against the budget for legal work in support of a review of governance arrangements. The exact nature of the review and the scope of the work was still to be determined.

RESOLVED – That the report be noted.

### **5 RESPONSIBLE INVESTMENT POLICIES ANNUAL REVIEW 2021 - RACHEL ELWELL**

A report was considered which set out a review of the Responsible Investment Policy and the Corporate Governance and Voting Guidelines.

The Committee noted that the Responsible Investment Policy review reflected work undertaken during the year, including the development of the Climate Change Policy and associated exclusions, and the refreshment of the key engagement themes. All changes were shown as tracked changes in Appendix A to the report.

The Corporate Governance & Voting Guidelines had been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2021 had also been used in the review process. There were several minor amendments including proposed additions and clarification of text. All changes were shown as tracked changes in Appendix B.

Responsible Investment workshops had been held at regular intervals for Partner Fund Officers and the Joint Committee to discuss RI topics and issues to be included in the policy review. Topics covered included the development of the Climate Change Policy, Net Zero and the approach to exclusions and refreshing the priority engagement themes. The Chair commented that these had been useful and that the Climate Statement, issued after the Border to Coast Annual Conference, had received a lot of media attention.

N Wirz commented that the Scheme Member representatives were of the view that, in future, there should be more ambition in the area of diversity.

RESOLVED – That the Committee:

- i) Notes the proposed revisions to the Responsible Investment Policy and Corporate Governance & Voting Guidelines.
- ii) Supports taking the revised policies to Pensions Committees for comment and for them to consider adoption of the principles in their own Responsible Investment Policies in line with industry best practice

## **6 SUMMARY OF INVESTMENT PERFORMANCE AND MARKET RETURNS - DANIEL BOOTH**

D Booth thanked the Committee and Officers for their support and constructive challenge during his time at Border to Coast and he felt he was leaving the Company with a good solid base on which to build.

He presented a report which provided an overview of the macroeconomic environment as well as high level details on market and fund performances.

It was noted that strong cyclical conditions following record amounts of monetary and fiscal stimulus combined with elevated levels of cash on household and corporate balance sheets had led to demand outstripping supply with resultant high prices (inflation) and inflation expectations. With inflation levels above central bank targets, this was starting to put pressure on banks to react and as a result there had been some interest rate rises and discontinuation of quantitative easing programmes. It was thought that the speed and intensity of monetary tightening versus market expectation would be a key determinate for asset price performance in 2022.

Cllr Mulligan paid tribute to D Booth for his contribution to Border to Coast, commenting that his style, investment philosophy and calm and collected attitude had been an enormous asset to Border to Coast which would be missed.

The Chair echoed Cllr Mulligan's comments and, on behalf of the Joint Committee, thanked D Booth for all his hard work and wished him well for the future.

RESOLVED – That the report be noted.

#### Exclusion of the Public and Press

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

## **7 BORDER TO COAST ASSET TRANSFER PLANNING**

G Long presented a report which set out Border to Coast's asset transfer plans for 2022-2025.

The Committee was reminded that a fundamental objective of pooling was to transfer assets in the context of value for money and sustainability. To support this, significant work was undertaken between Border to Coast and Partner Funds on an ongoing basis to understand Partner Funds' needs and objectives.

The process for working collectively and in partnership to identify the "building blocks" required to support Partner Funds strategic asset allocations had previously been agreed. This had taken into account Partner Fund's objectives, risk management, capacity and costs to propose both a prioritisation of capability build and a process to enable Partner Funds to participate in sub-fund design (detailed in section 3 of the report).

Discussions had taken place with Partner Funds about future capability development including new funds, services and changes to existing funds. Key observations from the current indicative plan were at section 4 of the report.

It was noted that the approach to asset transfer and fund design/launch was last reviewed with the Joint Committee in November 2020. Border to Coast continued to take feedback and learn from each fund launch and progress was monitored using the quarterly Management Information as detailed in section 5.

Border to Coast was beginning to focus attention more on the assets that remained unpooled and the solutions required to bring them into Border to Coast. This was the focus of the proposed capability launch plan in section 4.1 of the paper.

RESOLVED – That the Joint Committee:

- i) Note the proposed outline plan for building investment capabilities over the next three years which would form the basis of the strategic plan and budget which would ultimately go to the shareholders for approval.

- ii) Note the quarterly management information used to track pooling progress as set out in section 5 of the G Long presented a report which set out Border to Coast's asset transfer plans for 2022-2025.

## **8 UK EQUITY ALPHA - MANAGER SEARCH OUTCOME - GRAHAM LONG**

A report was submitted which provided an update on the UK Equity Alpha manager search.

The report summarised the steps in the search process and set out the investment case for the outcome with comparisons between the current and changed portfolio covering downside protection, risk and liquidity impacts, ESG characteristics and returns analysis.

The report also detailed the impact on fees and estimated transition costs resulting from the recommended change.

RESOLVED – That the Joint Committee note the appointment of Lindsell Train and RWC to the UK Equity Alpha Fund and the full disinvestment from UBS.

## **9 ALTERNATIVES SERIES 2 AND CLIMATE OPPORTUNITIES - MARK LYON**

The Committee considered a report which provided an overview of the proposed offerings for Series 2 of the Alternatives programme following discussions internally and with Partner Funds.

It was noted that, following extensive consultation with Partner Funds, their consultants and advisors, it was considered appropriate to propose follow-on offerings for the existing Series 1 asset classes with relatively minor changes to their strategies, parameters and benchmarks.

It was believed that there was sufficient demand, and suitable available investments, to provide a Climate Opportunities offering which would assist in meeting climate transition commitments and objectives.

It was noted that, as agreed with the Board and Partner Funds at the initial launch of the Alternatives programme, a full review of legal documentation was being undertaken to ensure that it remained fit for purpose, with separate legal advice for Partner Funds to support their signing any subsequent amendments.

RESOLVED – That the Joint Committee:

- i) Note the report.
- ii) Note the overview of the Series 2 offerings (outlined in 4.5 – 4.9 and the appendices).
- iii) Delegate to officers the authority to review the contractual documentation required to support the Alternatives Series 2 launch.

## 10 CEO REPORT

R Elwell presented the CEO report for the period since the last Joint Committee meeting to the end of October which contained:

- Interactions with Partner Funds.
- A summary of fund performance.
- An update on fund launches.
- An update on progress from a corporate functions perspective and the expected outturn for the Operating Budget.
- A brief discussion on the world external to pooling.

It was stated that Covid-19 risks continued to be heightened both in the short-term and longer-term.

Responsible investment remained a focus area.

RESOLVED – That the report be noted.

### A. UK LISTED EQUITY

A report was submitted which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over Q3 2021.

It was noted that performance was below the benchmark for Q3 2021 and modestly below the performance objective since inception.

Factors which benefitted and detracted from the Fund were contained within the report, as were the top five contributors to performance.

RESOLVED – That the report be noted.

### B. OVERSEAS DEVELOPED EQUITY

A report was submitted which summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q3 2021.

It was noted that overall Fund performance was above its target over Q3 2021 and since inception. The Fund had continued to benefit from ongoing strength in equity markets supported by extensive monetary and fiscal stimulus.

Factors which benefitted and detracted from the Fund were contained within the report, as were the top and bottom five contributors.

RESOLVED – That the report be noted.

### C. EMERGING MARKET EQUITIES

A report was considered which summarised the performance and activity of the Border to Coast Emerging Market Equity Fund over Q3 2021.

The Committee was reminded that Border to Coast had restructured the Emerging Market portfolio to consist of three sleeves – an internally managed sleeve focusing on Emerging Markets excluding China and two China-focused sleeves managed externally by specialists in the Chinese market.

Over the quarter the EM ex-China sleeve, managed internally by Border to Coast, delivered a positive absolute return, although it underperformed its benchmark by 0.8%.

In aggregate, the fund's allocation to China was a positive contributor to relative returns, with the China portion of the Fund outperforming by 1.7% over the quarter.

RESOLVED – That the report be noted.

#### **D. UK LISTED EQUITY ALPHA**

A report was submitted which summarised the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q3 2021.

The Committee noted that the quarter was positive for UK equities as the Fund delivered 2.72% which was 0.49% ahead of the FTSE All share return of 2.23%. The growth was driven by strong earnings reports (rebounding from Covid-19 weaknesses), supportive monetary policy and the reopening of the economy following a successful vaccination programme, but dispersion between underlying Fund managers persisted.

Members were informed that valuations of equity markets were above their long-term average and, although investor sentiment remained positive, further market progress would seem to remain heavily dependent upon continued strong economic growth feeding through into earnings.

RESOLVED – That the report be noted

#### **E. GLOBAL EQUITY ALPHA**

A report was submitted which summarised the performance and activity of the Border to Coast Global Equity Alpha Fund over Q3 2021.

The Committee was informed that many of the portfolio companies had a strong earnings season, with the Fund delivering more earnings surprises than the benchmark. Four of the five investment managers delivered positive absolute returns over the period. Manager performance, net of fees, to the quarter end was contained within the report as was the regional breakdown of the Fund and benchmark.

RESOLVED – That the report be noted.

#### **F. STERLING INVESTMENT GRADE CREDIT**

A report was considered which summarised the performance and activity of the Border to Coast Sterling Investment Grade Credit Fund over Q3 2021.

The Fund was down -0.77% in absolute terms during the period, largely impacted by the movements in interest rate expectations. However, as with prior periods, the Fund had delivered excess returns (+0.21% above the benchmark) in a period of general asset class weakness.

**12 UPDATE ON EMERGING MATTERS - RACHEL ELWELL/FIONA MILLER/IAN BAINBRIDGE**

The Committee discussed staffing and recruitment issues within Border to Coast and the launch of the Real Estate portfolio

CHAIR



## Border to Coast Joint Committee

**Date of Meeting:** 8<sup>th</sup> March 2022

**Report Title:** Ratification of Decisions from 23<sup>rd</sup> November 2021 (for decision)

**Report Sponsor:** Ian Bainbridge, Chair Officer Operations Group

### 1.0 Recommendation

1.1 The Joint Committee is asked to formally ratify the following in principle decisions taken at the meeting of the Joint Committee on 23<sup>rd</sup> November 2021

- Item 2 - Minutes of the meeting held on 30 September 2021 - That the minutes of the meeting held on 30<sup>th</sup> September 2021 be agreed as a true record.
- Item 5 - Responsible Investment Policies Annual Review 2021 - The Joint Committee supports taking the revised policies to Pensions Committees for comment and for them to consider adoption of the principles in their own Responsible Investment Policies in line with industry best practice.
- Item 9 - Alternatives Series 2 and Climate Opportunities - The Joint Committee delegate to officers the authority to review the contractual documentation required to support the Alternatives Series 2 launch.

### 2.0 Joint Committee Meeting – 23<sup>rd</sup> November 2021

2.1 The quorum for the Joint Committee meetings is set at 8 voting members of the Joint Committee. Under Local Government Regulations the voting members need to be physically present in the room to count towards the quorum and to vote.

2.2 At the Joint Committee meeting on 23<sup>rd</sup> November 2021 only 6 voting members were present in the room. Therefore, the meeting was not quorate and therefore, not able to take formal decisions.

2.3 It should be recognised however, that all of the partner funds were represented at the meeting either, by being in attendance in the room or by attendance through a video link. In addition, a scheme member representative was

physically present. Therefore, each fund and the scheme members were represented and were able to take full part in the discussion and debate.

- 2.4 Consequently, it was proposed that the meeting should proceed and any decisions would be made in principle and formally ratified at the next meeting of the Committee. This would allow Border to Coast and Officers to proceed with any action needed. This approach was unanimously supported.
- 2.5 The minutes of the meeting are shown elsewhere on the agenda. It should be noted that there were a number of reports and items included on the agenda where the action was to note the report or the position. Where this is the case, these items do not require ratification as no formal action was needed.
- 2.6 The items which require action and therefore, ratification from the Joint Committee are set out below.
  - Item 2 - Minutes of the meeting held on 30 September 2021 - That the minutes of the meeting held on 30th September 2021 be agreed as a true record.
  - Item 5 - Responsible Investment Policies Annual Review 2021 - The Joint Committee supports taking the revised policies to Pensions Committees for comment and for them to consider adoption of the principles in their own Responsible Investment Policies in line with industry best practice.
  - Item 9 - Alternatives Series 2 and Climate Opportunities - The Joint Committee delegate to officers the authority to review the contractual documentation required to support the Alternatives Series 2 launch.

**Report Author:**

Ian Bainbridge, [ian.bainbridge@southtyneside.gov.uk](mailto:ian.bainbridge@southtyneside.gov.uk)

**Further Information and Background Documents:**

N/A



## BCPP Joint Committee

**Date of Meeting:** 8<sup>th</sup> March 2022

**Report Title:** Schedule of Future Meetings

**Report Sponsors:** George Graham for Officer Operations Group

### 1.0 Executive Summary:

1.1 This report sets out the proposed schedule of future meetings for the Joint Committee through to the 2024/25 Municipal Year, confirming the dates previously agreed.

### 2.0 Recommendations:

2.1 Members to note the proposed dates for meetings of the Joint Committee and member workshops for the next three years as set out in the body of this report.

### 3.0 Background:

3.1 Each March the Joint Committee agrees a programme of meetings for the coming three years. This report updates the previously agreed programme and adds a further year. The programme also includes the two scheduled Responsible Investment Workshops which allow members of the Joint Committee to provide input into the development of the Company's policies in this area.

3.2 The programme has been designed to maximise the benefits from members travel, for example by meeting at the same time as the Border to Coast conference.

3.3 The proposed programme is set out for approval in Appendix A. Members are asked to note that there have been changes to the March and November dates across all years in order to better align the meeting timetable with meetings of the Company's Board. The summer responsible investment workshop has now been moved to the same day as the June meeting to accommodate other events that need to take place alongside the Company's AGM.

## 4.0 Report Author:

George Graham  
[ggraham@sypa.org.uk](mailto:ggraham@sypa.org.uk)  
01226 666439

## Further Information and Background Documents:

**Appendix A: Border to Coast Joint Committee – Schedule of Meetings and Other Significant Events**

**Border to Coast Joint Committee Schedule of Meetings and Other Significant Events**

| 2022/23 Municipal Year   |   | 2023/24 Municipal Year   |   | 2024/25 Municipal Year   |   |
|--|---|--|---|--|---|
| Date of Meeting  | Review of Performance for Quarter Ended | Date of Meeting  | Review of Performance for Quarter Ended | Date of Meeting  | Review of Performance for Quarter Ended |
| Tuesday 14 <sup>th</sup> June 2022<br>(Annual Meeting and Responsible Investment Workshop) | 31 <sup>st</sup> March 2022             | Tuesday 13 <sup>th</sup> June 2023<br>(Annual Meeting and Responsible Investment Workshop) | 31 <sup>st</sup> March 2023             | Tuesday 18 <sup>th</sup> June 2024<br>(Annual Meeting and Responsible Investment Workshop) | 31 <sup>st</sup> March 2024             |
| Thursday 29 <sup>th</sup> Sept. 2022   | 30 <sup>th</sup> June 2022              | Thursday 28 <sup>th</sup> Sept. 2023*  | 30 <sup>th</sup> June 2023              | Thursday 26 <sup>th</sup> Sept. 2024*  | 30 <sup>th</sup> June 2024              |
| Tuesday 15 <sup>th</sup> November 2022<br>(Responsible Investment Workshop)<br>Virtual     |   | Tuesday 14 <sup>th</sup> November 2023<br>(Responsible Investment Workshop)<br>Virtual     |   | Tuesday 12 <sup>th</sup> November 2024<br>(Responsible Investment Workshop)<br>Virtual     |   |
| Wednesday 30 <sup>th</sup> Nov 2022  | 30 <sup>th</sup> Sept. 2022             | Tuesday 28 <sup>th</sup> Nov. 2023   | 30 <sup>th</sup> Sept 2023              | Tuesday 26 <sup>th</sup> Nov. 2024   | 30 <sup>th</sup> Sept 2024              |
| Tuesday 21 <sup>st</sup> March 2023  | 31 <sup>st</sup> Dec. 2022              | Tuesday 26 <sup>th</sup> March 2024  | 31 <sup>st</sup> Dec 2023               | Tuesday 25 <sup>th</sup> March 2025  | 31 <sup>st</sup> Dec 2024               |

Where meetings are in person all meetings will take place in Leeds and timings will be set to allow for travel.

\*Subject to confirmation of the date of the Border to Coast Annual Conference



## **Border to Coast Joint Committee Schedule of Meetings and Other Significant Events**

Note:

The Annual General Meetings of the Border to Coast Operating Company will, subject to final confirmation by the Company take place on the following dates

19<sup>th</sup> July 2022 to approve the report and accounts for 2021/22

18<sup>th</sup> July 2023 to approve the report and accounts for 2022/23

23<sup>rd</sup> July 2024 to approve the report and accounts for 2023/24

The Border to Coast Annual Conference will (subject to final confirmation) take place on the following dates

29<sup>th</sup> – 30<sup>th</sup> Sept 2022

28<sup>th</sup> – 29<sup>th</sup> Sept 2023

26<sup>th</sup> – 27<sup>th</sup> Sept 2024

In order to minimise travel and maximise the use of members' time the Joint Committee will take place on the Thursday morning before the commencement of the Conference.

V 1.0 March 2022



## Border to Coast Joint Committee

**Date of Meeting:** 8<sup>th</sup> March 2022

**Report Title:** Annual Elections

**Report Author:** George Graham (for Officer Operations Group)

### 1.0 Executive Summary:

1.1 This report sets out the process for election to the following roles:

- Chair and Vice Chair of the Joint Committee
- Non-Executive Director to sit on the Border to Coast Company Board

### 2.0 Recommendation:

2.1 It is recommended that the elections to the specified roles should take place as set out in the body of this report.

### 3.0 Election Requirements

3.1 The terms of the Inter Authority Agreement (IAA) together with the Joint Committee's Constitution specify that the roles of Chair and Vice Chair should be elected annually. The arrangements specified also include a term limit in each role of two years (i.e. two years as Chair and two years as Vice Chair). As the June meeting of the Joint Committee is the Annual meeting it is appropriate to make arrangements now for the elections to these roles. The current Chair is eligible to stand again for that role while the current Vice Chair will be term limited in that role.

3.2 Following discussion in the previous electoral cycle the Committee determined that the term of office for the partner nominated Non-Executive Directors should remain two years and therefore the term of office of Cllr Anne Walsh will end in October 2022 and given the time required for FCA approvals etc. it would be sensible to conduct the elections for this role alongside the other elections. Cllr Walsh is eligible to stand again, but it is understood that she has indicated to the Company that she does not intend to do so. Eligibility for the role is restricted to elected councillors and once appointed to the role the councillor cannot be a member of the Joint Committee. In considering nominations for this role members may wish to consider the policies adopted by the Partnership and individual funds in relation to diversity in the composition of company boards.

3.4 Role profiles and other information relevant to the individual roles is contained in the appendices to this report.

## 4.0 Election Arrangements

- 4.1 The electorate for the Chair, Vice Chair and Non-Executive Directors are the members of the Joint Committee on a one Fund one vote basis. Each Fund will be invited to nominate a candidate for each role (or to declare that they are not nominating) and provide a supporting statement for any nominated candidate.
- 4.2 It is proposed, as for the last two years, to conduct the relevant elections by “post”, immediately after the June meeting. As in the previous election cycle the Single Transferable Vote system will be used.
- 4.3 The elections will be arranged by South Yorkshire as part of the secretariat function to the Joint Committee.
- 4.5 The Governance Review currently underway and considered elsewhere on the Committee’s agenda may result in changes to terms of office and term limits and if these have been agreed by the time of the June meeting any changes will be reflected in the process.

## 5.0 Recommendation

- 5.1 It is recommended that the election process as set out in the body of this report be adopted.

### Report Author:

George Graham

[ggraham@sypa.org.uk](mailto:ggraham@sypa.org.uk)

01226 666439

### Further Information and Background Documents:

**Appendix 1: Role Profile for the Chair and Vice Chair**

**Appendix 2: Role Profile for the Non-Executive Director**

**Appendix 3: FCA and Companies Act requirements for Non-Executive Directors**

**Appendix 4: Border to Coast Process for Partner Fund Nominated Non-Executive Directors**

## Role Profile for Chair and Vice-Chair

### Overall

- Leading the BCPP Joint Committee to enable it to fulfil its purpose.
- To ensure an effective relationship between:
  - the Joint Committee and BCPP Limited
  - the Joint Committee and the partner funds
  - the Joint Committee and the external stakeholders/community
- Acting as a spokesperson and figurehead as appropriate.
- To supervise and support the Chief Executive and Non-exec Chair of BCPP Limited

### Specifically

- Plan and prepare the BCPP Joint Committee meetings with others as appropriate.
- Chair BCPP Joint Committee meetings ensuring:
  - A balance is struck between time-keeping and space for discussions.
  - Business is dealt with and decisions made.
  - Decisions, actions and deliberations are adequately minuted.
  - The implementation of decisions is clearly assigned and monitored.
- Ensure that a successor to the post of Chair is found when the term of office is due to end and the new term begins.

### Experience and Qualities

- A willingness to lead the partnership.
- A strong background/working knowledge of the LGPS.
- Recent experience of serving on an LGPS Pensions Committee.
- A working knowledge of asset strategy and implementation thereof.
- Possesses tact, diplomacy and powers of persuasion.
- Has the relevant skills and experience to run a meeting well.

### Capacity

- The capacity to commit the time that will be required to undertake this role, including any travel that may be required to undertake duties associated with the role to represent BCPP nationally.

### Role of the Chair

#### 1. Chairing the Joint Committee Meeting

The Chair (or in his/her absence, the Vice-Chair) will be the person presiding over BCPP Joint Committee meetings. The Chair of the BCPP Joint Committee does not have a casting vote.

## **2. Election of the Chair**

The Chair will be elected by the Joint Committee in accordance with an agreed procedure annually from among the Joint Committee Members and will receive regular briefings by the Chief Executive and Chair of the BCPP Company on current issues. They will also receive direct support from the Chair of the Officer Operations Group.

## **3. Responsibilities of the Chair**

The Chair will have the following responsibilities:

- 3.1 to uphold and promote the purposes of the terms of reference and the inter authority agreement, and to interpret these when necessary during BCPP Joint Committee meetings;
- 3.2 to preside over meetings of the BCPP Joint Committee so that its business can be carried out efficiently and with regard to the rights of Members and the interests of the Partner Funds and their employers and members;
- 3.3 to ensure that the BCPP Joint Committee is a forum for the debate of matters of concern to Partner Funds and their employers and scheme members
- 3.4 to be the public face of the BCPP Joint Committee and to represent the Partner Funds at wider events as required

### Non Executive Director Role Profile

|  |                        |
|--|------------------------|
| <b>Role Title:</b> Non-Executive Director  |                        |
| <p><b>Purpose of the role:</b></p> <p>To fully participate in ensuring the Board exercises effective leadership of and control over Border to Coast. To constructively challenge and contribute to the development of strategy, performance and the management of risk.</p> <p>A non-executive director is a member of the board of directors of an organisation, but not a member of the executive management team. They are not employees of the company, instead they have a contract for services. However, they do have the same legal duties, responsibilities and potential liabilities as their executive counterparts.</p> <p><b>About Border to Coast:</b></p> <p>Border to Coast Pensions Partnership is one of the largest pension pools in the UK. One of eight Local Government pools, Border to Coast oversees the investment of pensions assets. Our customers are at the heart of what we do; delivering long-term sustainable investment outcomes for our Partner Funds. We build long-term partnerships through working collaboratively, in a sustainable way and with integrity.</p> <p>Border to Coast is an FCA regulated investment company (“Border to Coast Pensions Partnership Ltd”) which manages the assets of its eleven <a href="#">Partner Funds</a> through both internal and external management within a number of investment vehicles, including an Authorised Contractual Scheme.</p> |                        |
| <b>Reports to:</b> Chair of the Board  | <b>Level:</b> n/a      |
| <b>Function:</b> Board   | <b>Team:</b> Board     |
| <b>Direct Reports:</b> 0   | <b>SMCR:</b> Certified |
| <b>Role line of defence:</b> n/a   |                        |
| <p><b><u>Role Dimensions</u></b></p> <p><b>Budget Responsibility:</b> n/a</p> <p><b>Number of employees in area of responsibility:</b> 0</p> <p><b>Mandate:</b> Board remit</p> <p><b>Prescribed Responsibilities (SMF):</b> n/a</p> <p><b>Time Commitment:</b> Expected to be 2-3 days per month, with availability for meetings, induction and training as required</p>  |                        |
| <b>Key Accountabilities</b>  |                        |
| <p><b><u>Role Specific Accountabilities</u></b></p> <ul style="list-style-type: none"> <li>• Support the Chair and Executive Team in instilling the appropriate culture, values and behaviours in the boardroom and beyond</li> <li>• Provide independent oversight and scrutiny of Border to Coast including:             <ul style="list-style-type: none"> <li>• Provide an impartial and independent view of Border to Coast and its operations, removed from the day-to-day running of the business</li> <li>• Oversee the performance of the Board and Executive Team in meeting strategic objectives, including monitoring financial controls and risk management systems</li> </ul> </li> <li>• Draw on wider experience, in other organisations, to provide the Board and Border to Coast Executive Team with a breadth of understanding and insight, including:</li> </ul>   |                        |

- Challenge and contribute to the development of the strategy of Border to Coast
- Support the development of a suitable succession plan for the Board and CEO
- Use specialist knowledge to input to decision making processes
- Promote a culture of responsible investment and stewardship throughout the organisation
- Commit to building a full understanding of Border to Coast, especially in those areas of the business with a significant level of risk
- Take time to understand various stakeholder needs and ensure these are addressed at Board level
- Chair Committees of Border to Coast (Independent NEDs; less likely for Partner Fund NEDs)

**Skills, Knowledge and Experience**

|   |   |
|---|---|
| <p><b>Skills, Knowledge and Qualifications</b></p> <p><b>Essential</b></p> <ul style="list-style-type: none"> <li>• Excellent inter-personal and communication skills</li> <li>• Awareness of Border to Coast customers and their particular needs</li> <li>• Understanding of LGPS investment requirements</li> </ul> <p><b>Desirable</b></p> <ul style="list-style-type: none"> <li>• Other corporate knowledge – health and safety, ICT strategy and systems, HR, information management and data protection</li> </ul> <p><b>Additional</b></p> <ul style="list-style-type: none"> <li>• Skills, knowledge and qualifications as required dependant on succession planning requirements as per the Board skills matrix</li> </ul> | <p><b>Experience</b></p> <p><b>Essential</b></p> <ul style="list-style-type: none"> <li>• Extensive experience of working as a non-executive director/Local Authority Committee Chair either within a public sector environment or FCA regulated business</li> <li>• Excellent understanding of working across multiple stakeholders</li> <li>• Ability to satisfy fitness and propriety test as a NED under the Senior Manager &amp; Certification Regime (SM&amp;CR) and to continue to satisfy test requirements and comply with FCA Conduct Rules</li> </ul> <p><b>Desirable</b></p> <ul style="list-style-type: none"> <li>• Asset management experience would be beneficial, gained either in the commercial or pension fund sectors</li> <li>• Familiarity with the FCA Conduct Rules.</li> </ul> <p>It is important to achieve an appropriate balance of experience amongst the non-executive directors</p> |
|---|---|

**Version**

|   |  |
|---|--|
| <b>Version No. and Date</b>                                 | 2, 1 February 2022                     |
| <b>Profile created/updated by</b>                           | Rachel Elwell, Chief Executive Officer |
| <b>Profile reviewed by people manager (name &amp; role)</b> | Chris Hitchen, Chair                   |
| <b>Profile reviewed by HR (state name &amp; role)</b>       | Peri Thomas, Head of HR                |

**Role holder acknowledgement**

I acknowledge receipt of this document; I have discussed it with the Chair and confirm it is an accurate reflection of my role and the responsibilities of it

|                  |  |
|------------------|--|
| <b>Name</b>      |  |
| <b>Signature</b> |  |
| <b>Date</b>      |  |

### FCA and Companies Act requirements for Non-Executive Directors

#### FCA Requirements

Border to Coast's Directors are responsible for the governance and oversight of the Company in relation to the 11 FCA Principles of Business:

|  |   |
|--|---|
| <b>1 Integrity</b>                         | A firm must conduct its business with integrity.  |
| <b>2 Skill, care and diligence</b>         | A firm must conduct its business with due skill, care and diligence.  |
| <b>3 Management and control</b>            | A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.  |
| <b>4 Financial prudence</b>                | A firm must maintain adequate financial resources.  |
| <b>5 Market conduct</b>                    | A firm must observe proper standards of market conduct.   |
| <b>6 Customers' interests</b>              | A firm must pay due regard to the interests of its customers and treat them fairly.   |
| <b>7 Communications with clients</b>       | A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.   |
| <b>8 Conflicts of interest</b>             | A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.   |
| <b>9 Customers: relationships of trust</b> | A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.  |
| <b>10 Clients' assets</b>                  | A firm must arrange adequate protection for clients' assets when it is responsible for them.  |
| <b>11 Relations with regulators</b>        | A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice. |

Directors who hold Senior Management Functions or Controlled Functions are also subject to the FCA's individual conduct rules and standards:

- Rule 1: You must act with integrity.
- Rule 2: You must act with due skill, care and diligence.
- Rule 3: You must be open and cooperative with the FCA, the PRA and other regulators.
- Rule 4: You must pay due regard to the interests of customers and treat them fairly.
- Rule 5: You must observe proper standards of market conduct.

#### The Companies Act Requirements

A Director should display possession of the knowledge, skill and experience that may reasonably be expected of a person carrying out the role of Director. It codifies the Directors' duties into law:

- To act within powers;

- To promote the success of the Company;
- To exercise independent judgment;
- To exercise reasonable care, skill and diligence;
- To avoid conflicts of interest;
- Not to accept benefits from third parties; and
- To declare interests in proposed or existing transactions or arrangements.

Duty two requires Directors to have regard (amongst other matters) to the likely consequences of any decision in the long-term, the interests of employees, the need to foster relationships with customers, suppliers and others, the impact of operations on the community and the environment, the desirability of maintaining a reputation for high standards of business conduct and the need to act fairly as between shareholders. The government has stated that promoting success means striving for a “*long term increase in value*”.

The conflict of interest provisions requires Directors to avoid profiting from their position as a Director on an opportunistic basis and apply to exploiting an opportunity, property or information even when the Company could not take advantage of it.

### Border to Coast Process for Partner Fund Nominated Non-Executive Directors

- 1 The Border to Coast Board has requested that the following be shared with the Joint Committee to provide transparency and promote understanding for those considering standing for nomination.

#### Pre-Selection

- 2 Prior to beginning the selection process the Joint Committee and Nominees should satisfy themselves that those offering themselves for selection do not have an unacceptable conflict of interest if the person appointed continues with their role with the partner fund's pension committee and the Board of Border to Coast.
- 3 The applications from the Nominees should illustrate how they meet the requirements of the Job Description (Appendix 4), including the required minimum time commitment and the requirement to undertake regular training, some of which is regulatory and compulsory.
- 4 The applicants should be comfortable with the post-selection process, including the FCA approval process. The Appendix to the Job Description details the requirements expected of directors by the FCA and the Companies Act.
- 5 Applicants must be willing to share the results of their DBS check with Border to Coast and the members of its Board.

#### Post-Selection

1. The Board would expect to meet the nominated candidates to assess whether they are comfortable to recommend to the Shareholders that they approve the appointment of the proposed nominee as a director of the company.
2. The Board reserves the right to not recommend for approval if they believe that the nominees do not meet the role profile criteria.
3. To satisfy the FCA regime, the nominees must be credit checked, satisfy anti-money laundering checks and be cleared by the Data Barring Service. At present all NEDS must then be approved by the FCA (after December 2019 under the Senior Managers and Certification Regime (Core), Border to Coast will have to self-certify NEDs other than the Chair).
4. Nominees will need to provide personal information, including photo ID and two forms of address information to apply for the Data Barring Service checks. The process of gathering the data will be managed by the Border to Coast HR team. Once the credit reference, anti-money laundering and DBS checks are completed and shared with Border to Coast, the Border to Coast Compliance team will apply for FCA approval, up to December 2019, or afterwards, register the new NED with the FCA.

5. The Board must approve the recommendation of the nominees to the Shareholders for approval to be directors. The Board may approve conditional upon the successful completion of the checks referred to above and the FCA's approval.
6. Once the checks are successfully completed, and FCA and Board approval has been obtained, the Company Secretariat will issue a resolution seeking the consent of 75% of the shareholders in line with the requirements of the Shareholders' Agreement. The time-frame for the return of Shareholder approvals vary between each of our Partner Funds.
7. Once approved by the Shareholders, the nominees will be required to enter into a service contract with Border to Coast.
8. Once all of the above is completed, the Company Secretary will register the nominees on Companies House and update the Company's register of Directors and Secretaries. Only then, will the nominee become a director of Border to Coast. This process may take up to 3 months. Hence the term for new Partner Fund nominated NEDs is expected to run from the October following nomination.

### **Time Commitment and Remuneration**

9. The Board also asked that further information be provided regarding the time commitment involved in the role. The Board is currently scheduled to meet six times a year, with Committee meetings 4-5 times a year in addition. Telephone meetings may occur where urgent matters are under consideration. The full meetings usually last about 5 hours; telephone meetings are shorter and are held to deal with urgent business. Typically meetings are held in the Company's office in Leeds. Papers are circulated a week before the meeting and reading time is required.
10. It is emphasised that individuals will sit as directors of the Company and provide expert input as such based on their personal knowledge and experience. They are not holding office as representatives of individual funds and will be expected to act in their view of the best interests of the Company.
11. Remuneration is approved by Shareholders on recommendation of the Remuneration Committee. The current level has been agreed at £15,000 pa,



## Border to Coast Joint Committee

**Date of Meeting:** 8<sup>th</sup> March 2022

**Report Title:** Joint Committee Budget (for decision)

**Report Sponsor:** Ian Bainbridge, Chair Officer Operations Group

### 1.0 Recommendation

1.1 The Joint Committee is asked to

- Note the current budget position for 2021/22
- Agree a budget for 2022/23 of £40,000

### 2.0 2021/22 Joint Committee Budget

2.1 At the Joint Committee meeting in March 2021 a budget of £40,000 was approved for 2021/22. This is consistent with the budget in previous years.

2.2 The Budget is intended to cover costs incurred by the Joint Committee and the partner funds, including the secretarial services to convene and run meetings, and for collective advice and support (internal from partner funds and external sources) which may be required from time to time by all partner funds.

2.3 It is also considered reasonable that this budget is used to cover travel costs and expenses for any members or officers who are attending meetings to represent all partner funds. This will include but will not be limited to meetings with the Department of Levelling Up, Housing and Communities (DLUHC). This budget will not be used where members and officers are attending meetings to represent their own funds including Joint Committee meetings and Officer Operations Group Meetings.

2.4 The budget will also be used to cover travel expenses for scheme member representatives appointed as observers to the Joint Committee. This is because they will be deemed to be representing the scheme members from all partner funds.

2.5 In line with the cost sharing principles these costs will be shared equally between the partner funds.

2.6 To date the following areas of expenditure have been committed against this budget head for 2021/22, as follows:

- Secretariat support to the Joint Committee, from South Yorkshire Pensions Authority.
- Legal work to review the alternatives series 2 legal documentation, including the Limited Partnership Agreement, the Subscription Agreement and the Investment Memorandum.
- Legal work to review the Investment Advisory Agreement between Border to Coast and each of the individual Partner Funds.
- Travel and subsistence for the scheme member representatives on the Joint Committee.

2.7 It is estimated that the cost of all of these items above will come to around £15,000.

2.8 There may also be a further charge against this budget head in 2021/22, for legal work in support of the review of governance arrangements. If this work is commissioned and undertaken prior to the year end, this should be delivered within the overall budget for the year of £40,000. There is however, a chance that some or all of this expenditure will slip into 2022/23 and as such will be met from next year's budget.

### **3.0 Proposed Budget for 2022/23**

3.1 It is proposed that the budget for 2022/23 should be retained at £40,000.

### **4.0 Conclusion**

4.1 The current expenditure is within the Joint Committee Budget.

4.2 It is proposed that the budget for 2022/23 is retained at the current level of £40,000.

#### **Report Author:**

Ian Bainbridge, [ian.bainbridge@southtyneside.gov.uk](mailto:ian.bainbridge@southtyneside.gov.uk)

#### **Further Information and Background Documents:**

N/A



## Border to Coast Pensions Partnership Joint Committee

**Date of Meeting:** 8 March 2022

**Report Title:** 2021 Partner Fund Satisfaction Survey (for information and discussion)

**Report Sponsor:** Rachel Elwell, CEO Border to Coast

### 1 Executive Summary

- 1.1 We hold an Annual Satisfaction Survey to understand how well we are delivering for, and on behalf of, our Partner Funds.
- 1.2 The feedback for the 2021 survey is very positive, and most areas saw a slight improvement on the 2020 scores. The satisfaction rate increased – ‘highly satisfied’ has increased from 49% to 59% while, in a new question, 62% ‘strongly agree’ (and 33% ‘agree’) that Border to Coast is a ‘trusted partner’ to their Partner Fund.
- 1.3 The Satisfaction Survey is a key mechanism to listen and respond to the thoughts and observations of our Partner Funds. We use this survey to identify areas for further development, which following discussion with Partner Fund Officers, has evolved into an action plan for the year ahead.
- 1.4 Potential areas for activity include:
  - How we can support closer collaboration between Partner Funds.
  - How we evolve the support we give to Officers.
  - How we continue to support our Partner Funds’ Responsible Investment needs.
  - How we better work together on the Strategic Asset Allocation process.
  - How we evolve our support and training for Committee members.
  - Reviewing and developing our various reports to Partner Funds.

### 2 Recommendations

- 2.1 The Committee is asked to note the results of the survey and provide comment on the recommended actions to address the feedback.

### 3 2021 Partner Fund Satisfaction Survey

- 3.1 Our Annual Satisfaction survey is a key mechanism to allow us to understand our Partner Funds’ views on the progress we are making to deliver our strategic purpose – to make a difference to the LGPS.

- 3.2 The survey opened on Monday 18 October and formally closed on Monday 8 November. Issued to 48 individuals, 35 responded (73%; in 2020 the survey was issued to 49 people and 80% responded). This covers Pension Committee Chairs, Pension Officers, S151 Officers, and Independent Advisors.
- 3.3 Scores remained very positive and we made slight improvements in most areas compared to 2020.
- 3.4 Overall, the satisfaction rate has increased – ‘highly satisfied’ has increased from 49% to 59%; Somewhat satisfied has remained static (41% to 40%); Neutrals have fallen from 10% to 3%. In a new question, 62% ‘strongly agree’ (and 33% ‘agree’) that Border to Coast is a ‘trusted partner’ to their Partner Fund. There were no negative views.
- 3.5 Responsible Investment – both the day to day practicing of, and rapidly evolving reporting requirements, remains a priority for our Partner Funds. The ability to recruit and retain talent is increasingly regarded as an increasingly important issue.
- 3.6 Summary of responses to key survey questions**

| Area   | Response  |
|--|---|
| If I raise an issue about Border to Coast or the services provided, I am confident that Border to Coast will deal with it appropriately                | 46% strongly agree<br>43% agree<br>11% Neutral<br>0% Disagree<br>0% Strongly Disagree   |
| How well informed do you feel on the progress of Border to Coast? (Very informed & informed combined)  | 96% Investment performance<br>91% Responsible Investment<br>91% Development of investment capabilities<br>76% Corporate activity within Border to Coast   |
| Building partnerships across Border to Coast remains very important. How well are we collectively doing in building these? (Very Well & Well combined) | 88% - Responsible Investment<br>79% - Design of investment capabilities<br>82% - Implementation of PF strategic asset allocation<br>68% - Input to investment strategy reviews<br>82% - Facilitation of oversight by PFs<br>72% - PFs working collaboratively |
| For my Partner Fund, Border to Coast is a trusted partner.   | 62% Strongly agree<br>32% Agree<br>6% Neither agree nor disagree<br>0% Disagree<br>0% Strongly disagree   |
| Future Priority Areas  | 89% - Responsible Investment (investing process)<br>86% - Responsible Investment (reporting)<br>63% - Investment capability development<br>60% - Information to allow investment oversight  |
| Key engagement areas   | 97% - Responsible Investment<br>71% - Government policy on pooling<br>68% - Investment industry (fees, costs, transparency, etc)<br>65% - impact of regulation on pooling and the LGPS  |
| Key Strategic Risks  | 80% - Investment offerings don't meet requirements<br>68% - Loss of key personnel / ability to recruit<br>67% - Drift towards sub-optimal lowest common denominator solutions   |
| Overall Satisfaction   | 58% strongly agree<br>40% agree<br>2% Neutral<br>0% Disagree<br>0% Strongly Disagree  |

3.7 As a learning organisation, while feedback is good, acting on it is essential. Using the insight from the Annual Satisfaction Survey, the round table discussions at the Annual Conference, and formal and informal feedback from Partner Funds, an action plan has been developed to ensure we continue to serve the needs of our Partner Funds. This is summarised at Appendix I.

#### 4 Risks

4.1 As a customer owned, customer focused organisation, it is important that Border to Coast understands, and responds, to the feedback provided by its Partner Funds. If this does not occur, there is a risk that the firm fails to deliver on behalf of its Partner Funds.

4.2 If we do not show that we are listening, we will fail to get the feedback needed to continue to develop in future years. Therefore the communication of the results of the survey and clear links from the feedback to actions are important.

#### 5 Conclusion

5.1 The annual satisfaction survey suggests that there is a high level of satisfaction in how Border to Coast is delivering on behalf of its Partner Funds. However, as a customer focused organisation, to ensure this remains the case, we have developed an action plan based off the feedback from the 2021 survey.

#### 6 Author

Ewan McCulloch, [Ewan.McCulloch@bordertocoast](mailto:Ewan.McCulloch@bordertocoast)  
Head of Policy & Communications  
21 February 2021

#### 7 Supporting Documentation

Appendix I – 2021 Partner Fund Satisfaction Action Plan

#### Important Information

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511). The information provided in this paper does not constitute a financial promotion and is only intended for the use of Professional Investors. The value of your investment and any income you take from it may fall as well as rise and is not guaranteed. You might get back less than you invested. Issued by Border to Coast Pensions Partnership Ltd, Toronto Square, Leeds, LS1 2HP.

## Appendix I – 2021 Partner Fund Satisfaction Action Plan

| Feedback Topic  | Actions  | Timeline                           |
|---|--|------------------------------------|
| <b>Reporting</b>  |  |                                    |
| Continue to <b>evolve quarterly investment reporting</b> – more accessible, less focus on specific stocks, more insight on thematic issues and incorporation of ESG/RI narrative          | <ul style="list-style-type: none"> <li>Focus more on investment and portfolio themes and longer-term</li> <li>Reduce emphasis on the most recent quarter and individual stocks</li> <li>Develop glossary of terms &amp; metrics to accompany reporting</li> <li>Consider link to ESG/RI narrative in quarterly investment reporting</li> </ul> | 2022                               |
| Ensure <b>sufficient time</b> to cover all asset classes quarterly  | <ul style="list-style-type: none"> <li>Split external quarterly calls into separate equity / fixed income sessions</li> </ul>  | Complete                           |
| Deliver <b>Alternatives reporting</b> in line with agreed timescales  | <ul style="list-style-type: none"> <li>Investment performance reporting expected to begin for the Alternatives programme from Q2 2022 onwards</li> </ul>   | 2022                               |
| Expand ESG/Carbon reporting <b>beyond equities</b>  | <ul style="list-style-type: none"> <li>Following recent RFP for RI data procurement, we are in discussions with Officers around timelines for likely provision</li> </ul>  | 2022/23 depending on asset class   |
| Continue to <b>evolve wider Responsible Investment support</b> & reduce duplication between Border to Coast and the Partner Funds   | <ul style="list-style-type: none"> <li>Consider whether carbon footprinting can be carried out centrally across the Partner Funds and their assets (perhaps joint procurement)</li> <li>Other aspects also provided (TCFD, Stewardship Code, plus Data Room, etc) – but is there further support we can provide?</li> </ul>                    | 2023                               |
| <b>Collating information</b> from multiple Border to Coast information sources can be challenging   | <ul style="list-style-type: none"> <li>Adapting quarterly assurance request to include links to various reports &amp; sources for use by officers</li> </ul>   | 2022                               |
| <b>Collective Voice &amp; Leadership</b>  |  |                                    |
| Where and how to make our <b>collective influence</b> felt, and <b>take more of a lead with Partner Funds</b>   | <ul style="list-style-type: none"> <li>Organise discussion with stakeholders to explore Border to Coast’s collective influence and understand desired scope</li> </ul>   | 2022                               |
| The challenges Border to Coast has in <b>aligning stakeholders</b>  | <ul style="list-style-type: none"> <li>Seek further feedback about how widely to share alignment and differences between Partner Funds</li> </ul>  | 2022                               |
| <b>Training</b>   |  |                                    |
| Continue <b>training for Members</b> – ideally face-to-face, providing opportunities to meet other Partner Funds throughout the year and scope to share experience and discuss hot topics | <ul style="list-style-type: none"> <li>Organise more regular in-person training for Members</li> <li>Continue to consider best format for sharing bite-size online training (e.g. videos, podcasts) with Members</li> <li>Officers to input on training needs and preferences</li> </ul>   | Continue throughout 2022 & onwards |

| Feedback Topic   | Actions   | Timeline                                    |
|--|---|---|
| <b><u>Capability Design Process</u></b>  |   |   |
| Improve Officer experience of capability design process  | <ul style="list-style-type: none"> <li>SLA for materials 3BDs prior to workshops embedded (providing Officers more time to consider key materials pre-meeting) plus formal follow-up activity post workshop to ensure conclusions are checked and further reflections can be taken into account.</li> </ul> | Embedded and will be applied going forwards |
| <b>How to support Partner Funds with</b> income requirements   | <ul style="list-style-type: none"> <li>Scheduled for 2023 discussions on capability launch planner</li> <li>Keen to understand Partner Funds' cashflow positions nearer term</li> </ul>   | 2022-23                                     |
| Alternatives – <b>assistance with</b> cashflow management  | <ul style="list-style-type: none"> <li>Sharing Cumbria/NT approach across Officer group</li> </ul>  | In progress                                 |
| <b><u>Customer Relationship &amp; Servicing</u></b>  |   |   |
| Documentation and monitoring of <b>Service Level Agreements (SLAs)</b>   | <ul style="list-style-type: none"> <li>Now established SLAs workshop materials, ESG/Carbon reporting and factsheets to be reported to OOG going forwards</li> </ul>   | 2022  |
| <b>Named CRM contact</b> for each Partner Fund   | <ul style="list-style-type: none"> <li>We are supportive of this and will explore with Officers how best to implement during 2022</li> </ul>  | 2022  |
| More <b>small group feedback</b> sessions and 1:1 check-in calls   | <ul style="list-style-type: none"> <li>Will be continued in 2022 - new Head of CRM will pick up</li> </ul>  | 2022  |
| How Border to Coast can provide <b>more support for Officers</b>   | <ul style="list-style-type: none"> <li>Facilitate OOG discussion to understand potential areas of assistance</li> </ul>   | 2022  |
| Assist Partner Funds in better <b>understanding upcoming activity</b> such as meetings and reporting                             | <ul style="list-style-type: none"> <li>CRM to reintroduce a longer-term schedule of meetings with purpose &amp; summary agendas, to share with Officers &amp; Advisors</li> </ul>   | 2022  |
| Provide better <b>visibility of</b> upcoming <b>Partner Fund allocations &amp; redemptions</b> (identify crossing opportunities) | <ul style="list-style-type: none"> <li>Schedule of known activity being developed. Intention is to share centrally with disclaimer in 2022</li> </ul>   | 2022  |
| Lingering <b>issues with Data Room</b> access / local authority IT permissions   | <ul style="list-style-type: none"> <li>Continue to work with Officers to iron out issues, including calls between the respective IT teams</li> </ul>  | Ongoing                                     |

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## Border to Coast Pensions Partnership Ltd Joint Committee

**Date of Meeting:** 08 March 2022

**Report Title:** Market Review

**Report Sponsor:** Interim Chief Investment Officer – John Harrison

### 1 Executive Summary

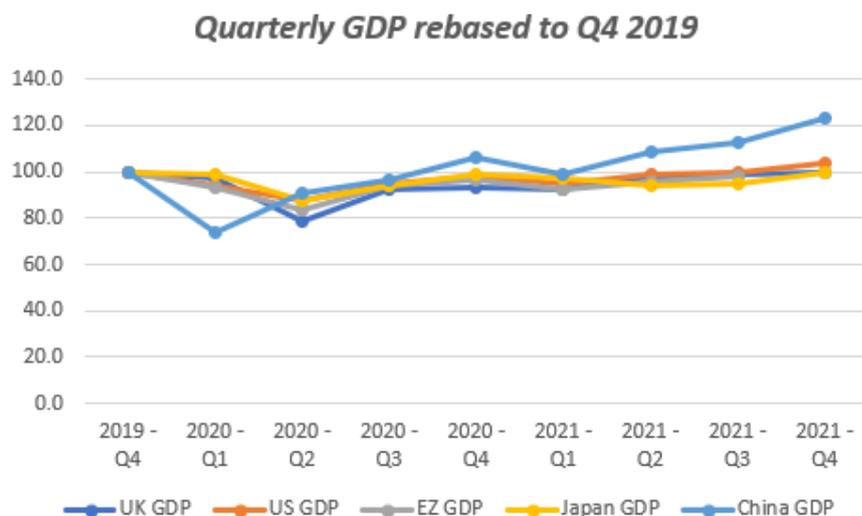
1.1 This report provides an overview of the macroeconomic environment, the performance of Border to Coast funds and the medium-term investment outlook.

### 2 Recommendation

2.1 That the report content be noted.

### 3 Macro-Economic Environment

3.1 Economic growth has recovered strongly since the initial shock of the pandemic. In the UK and Europe real GDP is now back to pre-pandemic levels, with the US and China materially higher.

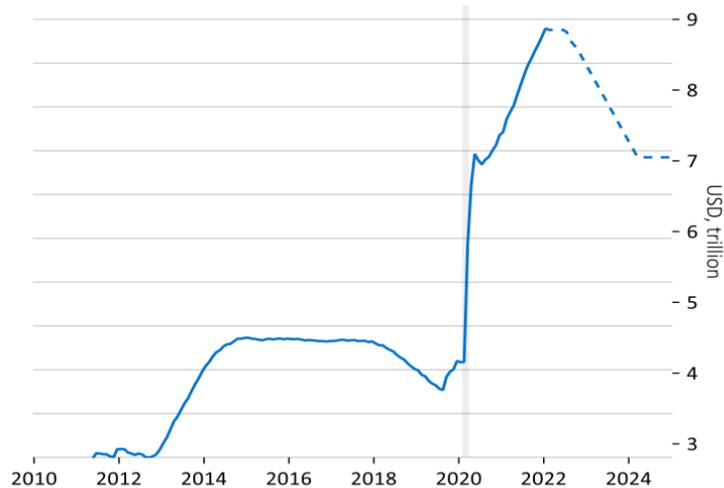


Source: Bloomberg

Note: Real GDP in local currency and not seasonally adjusted. Eurozone Q4 2021 datum is not yet available.

3.2 The economic rebound owes a lot to the massive monetary stimulus delivered by central banks, following the playbook established in the wake of the Global Financial Crisis in 2007/9. Central bank balance sheets in developed markets rose sharply through Quantitative Easing to support fragile economies. The original intention was to withdraw the stimulus when economies had recovered but in practice this was slow and muted. The response to the pandemic was even more dramatic in both scale and speed.

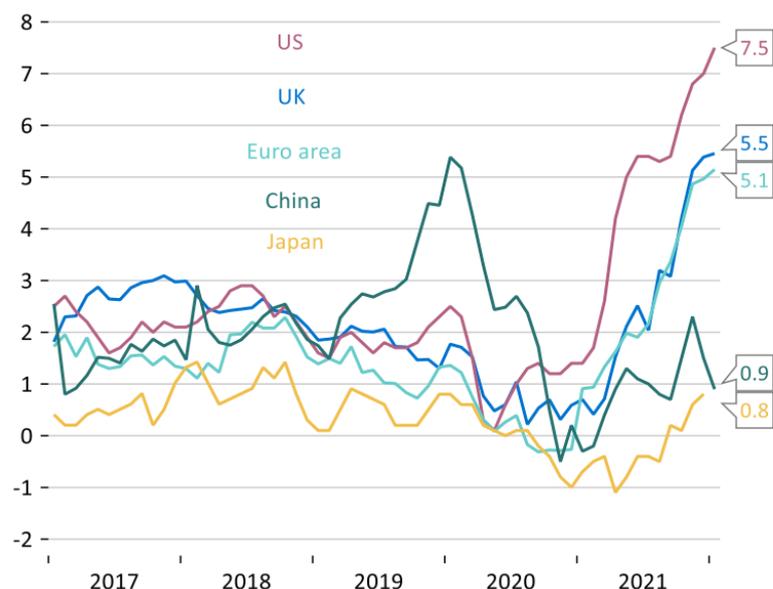
Quantitative Tightening of US Fed Reserve Balance Sheet



Source: Macrobond, 17.02.22

3.3 The difference now is inflation, which is not only spiking upwards but threatening to become engrained through wage increases. Rising energy prices in the wake of Russia's invasion of Ukraine will do nothing to ease the pressure. Central banks will need to respond, so we may now be at an inflexion point for the US from a prolonged period of Quantitative Easing to one of Quantitative Tightening.

Global Inflation Rates



Source: Macrobond, 17.02.22

3.4 The market consensus is that central banks will raise interest rates far enough and fast enough to bring inflation back under control, but not until 2023. Bond markets are discounting five rate rises in the US and three in the UK over 2022. Inflation rates are expected to stabilise in 2023 but are likely to do so at a higher level than we have seen over the last 10 years.

3.5 Consensus economic forecasts:

| <b>As at 22<sup>nd</sup> Feb 2022</b> | <b>Real GDP</b> | <b>CPI Inflation</b> | <b>Unemployment</b> | <b>10yr Sov Bond</b> |
|---------------------------------------|-----------------|----------------------|---------------------|----------------------|
| <b>UK</b>                             | 4.3%            | 5.3%                 | 4.1%                | 1.5%                 |
| <b>US</b>                             | 3.7%            | 5.1%                 | 3.6%                | 2.2%                 |
| <b>Germany</b>                        | 3.7%            | 3.7%                 | 5.0%                | 0.3%                 |
| <b>Japan</b>                          | 2.8%            | 0.9%                 | 2.6%                | 0.2%                 |
| <b>China</b>                          | 5.2%            | 2.2%                 | 3.7%                | 2.8%                 |

Source: Bloomberg

## 4 Fund Performance

4.1 The table below shows the absolute and relative performance of the various ACS sub-funds from inception to 31 December 2021 – the period under review.

| <b>% p.a. Since Inception</b>           | <b>Return</b> | <b>Benchmark</b> | <b>Relative</b> |
|---|---------------|------------------|-----------------|
| <b>Internal Equities</b>                |               |                  |                 |
| <i>UK Listed Equity</i>                 | 4.3           | 3.6              | <b>+0.7</b>     |
| <i>Overseas Developed</i>               | 12.2          | 11.1             | <b>+1.1</b>     |
| <i>Emerging Markets Equity*</i>         | 7.2           | 8.8              | <b>- 1.6</b>    |
| <b>External Equities</b>                |               |                  |                 |
| <i>UK Listed Equity Alpha</i>           | 10.1          | 7.7              | <b>+2.4</b>     |
| <i>Global Equity Alpha</i>              | 15.5          | 16.8             | <b>- 1.3</b>    |
| <b>Fixed Income</b>                     |               |                  |                 |
| <i>Sterling Investment Grade Credit</i> | 6.4           | 4.9              | <b>+1.5</b>     |
| <i>Sterling Index Linked Bonds</i>      | 6.0           | 5.5              | <b>+0.5</b>     |

Source: Border to Coast

\* Hybrid structure since April 2021; performance data from launch of fund in 2018

4.2 *UK Listed Equity*: The Fund is still above benchmark since inception, but relative outperformance has fallen below target after a disappointing 2021 in which the fund lagged the benchmark by 1.5%. The Fund takes low active sector and style positions but has a slight bias to quality, which was left behind in a rapid market recovery. Most of the shortfall arose from cautious stock selection in cyclical sectors, such as basic materials and industrials.

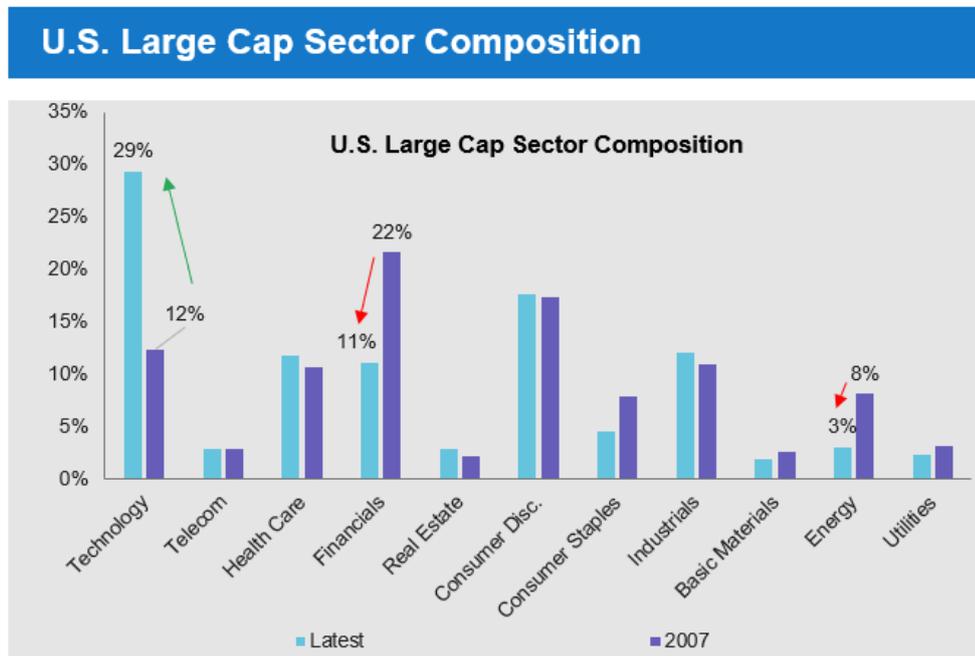
4.3 *Overseas Developed*: The Fund continued its consistent track record with all four regional sleeves outperforming their respective benchmarks over the year. The Fund outperformed by 1.2% in 2021 and has achieved its target since launch.

4.4 *Emerging Markets Equity*: The Fund outperformed its benchmark by 1.8% in 2021 but remains well behind benchmark since inception. The Fund was restructured to a hybrid structure in April 2021.

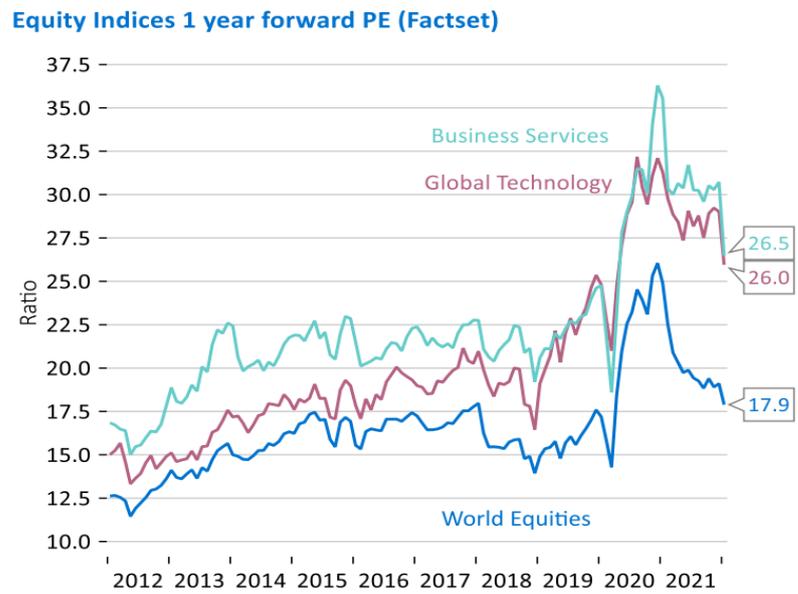
- 4.5 *UK Listed Equity Alpha*: The Fund is still above target since inception despite lagging the benchmark by 1.1% in 2021. Janus Henderson and UBS both performed well relative to their style benchmarks, but Baillie Gifford's more concentrated approach performed very poorly.
- 4.6 *Global Equity Alpha*: A poor final quarter resulted in the Fund lagging its benchmark by 0.3% in 2021. It is now 1.3% pa below benchmark since launch. Strong performance by the value (Harris and 91 Value) and growth (Loomis Sayles) managers was more than offset by poor returns from Lindsell Train.
- 4.7 *Sterling Investment Grade*: The Fund outperformed its benchmark by 1.0% albeit in a falling bond market in 2021. It remains well ahead of target since inception. The benchmark return for the year was -3.1% as investors worried about growing inflation pressures. By contrast the benchmark return from index linked bonds was +4.0%.
- 4.8 *Sterling Index Linked Bonds*: The Fund outperformed its benchmark by 0.3% in 2021 and remains well ahead of target since inception.
- 4.9 *MAC*: The Mac fund was launched in October 2021 and therefore does not have a sufficient track record to report performance.

## 5 Looking Forward

- 5.1 The challenge for equity investors is that the composition of indices is potentially more sensitive to changes in long term interest rates. The technology sector has been a key driver of stock market performance and now represents a significant proportion of market indices.

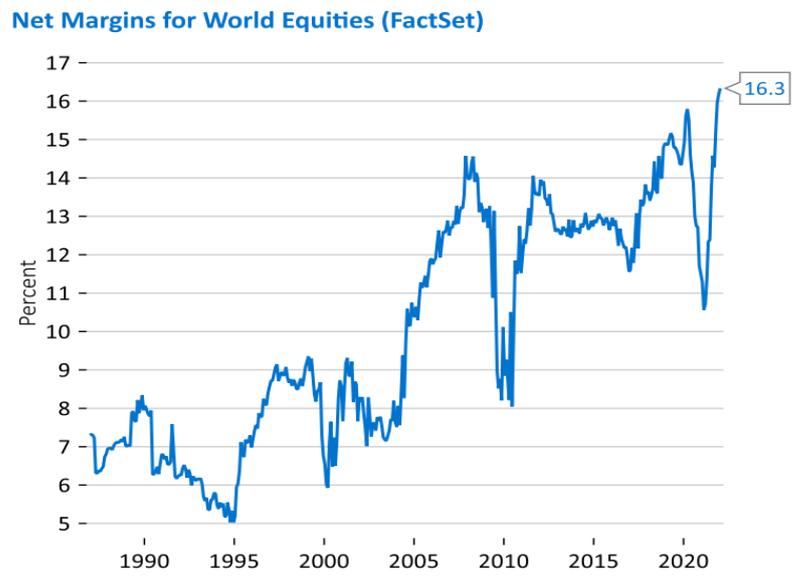


- 5.2 The valuation ratings on technology stocks have started to roll over but remain high on an historic basis.



Source: Macrobond, 17.02.22

- 5.3 At the same time, profit margins are at all-time highs. High multiples of high earnings in an environment of rising inflation and tightening interest rates is a potentially uncomfortable cocktail for investors.



Source: Macrobond, 17.02.22

## 6 Conclusion

- 6.1 The benign environment for investors of persistently low inflation and economic growth underpinned by accommodative central banks has probably come to an end. Inflation pressures also constrain the ability of central banks to step in to support financial markets and smooth out volatility (the so-called Fed put). Investors may face a bumpier ride in future.
- 6.2 LGPS funding levels have improved significantly since the last triennial valuation in March 2019. Asset prices have been strong at the same time as liabilities have been constrained by rising bond yields and changes to life expectancy assumptions.

6.3 The next few years may prove more challenging. Corporate margins may be close to a peak and valuation multiples are already stretched so prospective returns from equities are likely to be lower than we have enjoyed in recent years. Bonds offer little protection if inflation persists especially given low current yields. With cash effectively guaranteeing a negative real return, it seems likely that institutional investors will favour increased diversification across a broad range of 'risk' assets.

## **7 Author**

John Harrison (Interim Chief Investment Officer): 25<sup>th</sup> February 2022

### **Important Information**

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**PENSIONS PARTNERSHIP**

## **Commonly Used Abbreviations**

|                           |  |
|---------------------------|--|
| <b>ACS</b>                | Authorised Contractual Scheme, the collective investment scheme used by Border to Coast for asset pooling                |
| <b>AUM</b>                | Assets Under Management  |
| <b>BPS (basis points)</b> | One basis point is a unit equal to one hundredth of a percentage point   |
| <b>CEO</b>                | Chief Executive Officer  |
| <b>CIO</b>                | Chief Investment Officer   |
| <b>CIPFA</b>              | The Chartered Institute of Public Finance and Accountancy  |
| <b>CLG</b>                | Communities and Local Government (former name of MHCLG)  |
| <b>COO</b>                | Chief Operating Officer  |
| <b>COP</b>                | Conference of Parties, A UN conference on climate change   |
| <b>CPI</b>                | Consumer Price Index   |
| <b>CSR</b>                | Corporate Social Responsibility, a term under which companies report their social, environmental and ethical performance |
| <b>DAA</b>                | Dynamic Asset Allocation   |
| <b>DGF</b>                | Diversified Growth Fund  |
| <b>EM</b>                 | Emerging Markets   |
| <b>EMEA</b>               | Europe, Middle East & Africa   |
| <b>ESG</b>                | Environmental, Social and Governance – factors in assessing an investments sustainability                                |
| <b>FCA</b>                | Financial Conduct Authority  |
| <b>FRC</b>                | Financial Reporting Council  |
| <b>FSS</b>                | Funding Strategy Statement   |
| <b>FTA</b>                | FTSE Actuaries UK Gilts Index Series   |
| <b>FTSE</b>               | Financial Times Stock Exchange   |
| <b>GAAP</b>               | Generally Accepted Accounting Practice   |
| <b>GEM</b>                | Global Emerging Markets  |
| <b>GRESB</b>              | Global ESG Benchmark for Real Assets   |
| <b>HMT</b>                | Her Majesty’s Treasury   |
| <b>Infra</b>              | Infrastructure   |
| <b>IRR</b>                | Internal Rate of Return  |
| <b>ISS</b>                | Investment Strategy Statement  |
| <b>JC</b>                 | Joint Committee  |
| <b>LGA</b>                | Local Government Association   |
| <b>LGPS</b>               | Local Government Pension Scheme  |
| <b>LAPFF</b>              | Local Authority Pension Fund Forum   |

|                |   |
|----------------|---|
| <b>LIBOR</b>   | London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another |
| <b>LPB</b>     | Local Pension Board   |
| <b>LSE</b>     | London Stock Exchange   |
| <b>MAC</b>     | Multi Asset Credit  |
| <b>MHCLG</b>   | Ministry of Housing, Communities and Local Government   |
| <b>MSCI</b>    | Formerly Morgan Stanley Capital International, publisher of global indexes                          |
| <b>NED</b>     | Non-Executive Director  |
| <b>NT</b>      | Northern Trust, Custodian   |
| <b>OECD</b>    | Organisation for Economic Co-operation and Development  |
| <b>PF</b>      | Pension Fund  |
| <b>PFC</b>     | Pension Fund Committee  |
| <b>PLSA</b>    | Pensions and Lifetime Savings Association   |
| <b>PRI</b>     | The UN-supported Principles for RI  |
| <b>RI</b>      | Responsible Investment  |
| <b>RPI</b>     | Retail Price Index  |
| <b>S&amp;P</b> | Standard and Poor's, ratings agency and provider of equity indices                                  |
| <b>S151</b>    | An officer with responsibilities under s151 of the Local Government Act 1972                        |
| <b>SAB</b>     | Scheme Advisory Board   |
| <b>SDG</b>     | The UN's Sustainable Development Goals  |
| <b>SILB</b>    | Sterling Index Linked Bonds   |
| <b>SONIA</b>   | Sterling Over Night Index Average, the overnight interest rate paid by banks                        |
| <b>TCFD</b>    | Taskforce on Climate Related Financial Disclosures  |
| <b>TER</b>     | Total Expense Ratio   |
| <b>TPR</b>     | The Pensions Regulator  |



## PENSIONS PARTNERSHIP

# Commonly Used Terms

### A

- Active Management
  - Appointing investment professionals to manage the performance of the Fund's mandates, making buy, hold and sell decisions about the assets with a view to outperforming the market.
- Active Member
  - A current employee who is contributing to the pension scheme.
- Actuary
  - An independent professional who advises the Council in its capacity as Administering Authority on the financial position of the Fund.
- Actuarial Valuation
  - The Fund's actuary carries out a valuation every three years and recommends an appropriate rate of contributions for each of the Fund's participating employers for the following three years. The valuation measures the Fund's assets and liabilities, with contribution rates set according to the Fund's deficit or surplus.
- Additional Voluntary Contributions (AVCs)
  - An option available to active members to build up a pot of money which is then used to provide additional pension benefits. The money is invested separately with one of the Fund's external AVC providers.
- Administering Authority
  - The LGPS is run by local Administering Authorities. An Administering Authority is responsible for maintaining and investing its own fund for the LGPS.
- Admission/Admitted Body

- An organisation whose employees can become members of the Fund by virtue of an admission agreement made between the council in its capacity as Administering Authority and the organisation. It enables contractors who take on council services to offer staff transferred to the organisation continued membership of the LGPS.
- Asset Allocation
  - The apportionment of the Fund's assets between different types of investment (or asset classes). The long-term strategic asset allocation of the Fund will reflect the Fund's investment objectives and is set out in the Investment Strategy Statement.
- Asset Pooling
  - In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale, as requested by MHCLG: 'significantly reducing costs whilst maintaining investment performance'.
- Authorised Contractual Scheme
  - A collective investment scheme used by BCPP. An ACS is a form of investment fund that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds and quoted equities. Regulated by the Financial Conduct Authority, it is 'tax transparent' making it particularly useful for pooling pension assets.

## **B**

- Benchmark
  - A measure against which the investment policy or performance of an investment manager can be compared.
- Bond
  - A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.
- Book cost
  - The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from market value.
- Broker
  - An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.
- Border to Coast Pension Partnership
  - The Fund's chosen asset pool. Border to Coast has 11 Partner Funds who collectively have around £45bn of assets.

- Border to Coast Joint Committee
  - As part of their oversight, Border to Coast Partner Funds formed a Joint Committee which consists of the Chairs of each of the Partner Fund Pension Committees together with other non-voting representatives.

## C

- CARE (Career Average Earnings)
  - From 1 April 2014, the LGPS changed from a final salary scheme to a Career Average (CARE) scheme. The LGPS remains a defined benefit scheme but benefits built up from 2014 are now worked out using a member's pay each scheme year rather than the final salary at leaving.
- Cash Equivalent Value (CEV)
  - This is the cash value of a member's pension rights for the purposes of divorce or dissolution of a civil partnership.
- Consumer Price Index (CPI)
  - A method of measuring the changes in the cost of living, similar to the Retail Price Index. Since April 2011 LGPS pensions are increased annually in line with movement in the Consumer Price Index during the 12 months to the previous September.
- Commutation
  - A scheme member may give up part or all of the pension payable from retirement in exchange for an immediate lump sum.
- Convertible Shares
  - Shares that include an option for holders to convert into a predetermined number of ordinary shares, usually after a set date.
- Corporate Governance
  - The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.
- Covenant
  - The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pensions obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
- Creditors
  - Amounts owed by the pension fund.
- Custodian
  - A financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments.

## D

- Death Grant
  - A lump sum paid by the Fund to the dependents or nominated representatives of a member who dies.
- Debtors
  - Amounts owed to the pension fund.
- Deferred Member/Pensioner
  - A scheme member who has left employment or otherwise ceased to be an active member of the scheme who retains an entitlement to a pension from the Fund.
- Deficit
  - The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores future build-up of pension (which in effect is assumed to be net by future contributions).
- Defined Benefit Scheme
  - A pension scheme like the LGPS where the benefits that will ultimately be paid to the employee and fixed in advance and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the future pension promise.
- Denomination
  - The face value of a bank note, coin or postage stamp, as well as bonds and other fixed-income investments. Denomination can also be the base currency in a transaction or the currency a financial asset is quoted in.
- Derivative
  - Used to describe a specialist financial instrument such as options or future contracts. These financial instruments are agreements to buy or sell something, under terms laid out in a contract.
- Designating Body
  - Organisations that can designate employees for access to the LGPS. Employees of town and parish councils, voluntary schools, foundation schools, foundation special schools, among others, can be designated for membership of the scheme.
- Discretion
  - The power given by the LGPS to enable a participating employer or Administering Authority to choose how they will apply the scheme in respect of several of its provisions. For some of these discretions it is mandatory to pass resolutions to form a policy as to how the provisions will apply. For the remaining discretionary provisions, a policy is advised.

- Direct Property
  - Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.
- Diversified Growth Funds (DGF)
  - An alternative way of investing in shares, bonds, property and other asset classes. DGFs are funds that invest in a wide variety of asset classes in order to deliver a real return over the medium to long-term. The Fund's DGF o managed by BlackRock.
- Dividend
  - Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.
- Dividend Yield
  - An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share.

## E

- Employer Contribution Rates
  - The percentage of an employee's salary participating employers pay as a contribution towards the employees LGPS pension.
- Employer Covenant
  - The covenant is an employer's legal obligation and financial ability to support their defined benefit (DB) obligation now and in the future.
- Emerging Markets
  - There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.
- Equities
  - Ordinary shares in UK and overseas traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.
- ESG
  - ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S and G are the three key factors in assessing an investment's sustainability.

## F

- Fiduciary Duty
  - Fiduciary duties exist to ensure that those who manage other people's money act in the beneficiaries' interests rather than their own.

- Financial Instruments
  - Tradable assets of any kind, which can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.
- Final Salary Scheme
  - An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).
- Fixed Interest Securities
  - Investments, mainly in Government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date that can be traded on a recognised stock exchange in the meantime.
- FTSE All-Share
  - An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.
- Fund of Funds
  - A fund that holds a portfolio of other investment funds.
- Futures Contract
  - A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

## G

- Gilts
  - The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.
- Guaranteed Minimum Pension (GMP)
  - The LGPS guarantees to pay a pension that is at least as high as a member would have earned if they had not been contracted out of the State Earing Related Pension Scheme (SERPS) at any time between 6 April 1978 and 5 April 1997. This is called the guaranteed minimum pension.

## H

- Hedge
  - Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

## I

- Index

- A calculation of the average price of shares, bonds or other assets in a specified market to provide an indication of the average performance and general trends in the market.
- Internal Rates of Return (IRR)
  - The internal rate of return (IRR) is a metric used to estimate the profitability of potential investments. Generally, the higher the IRR, the more desirable an investment is to undertake.

## L

- Local Government Pension Scheme (LGPS)
  - The LGPS is collectively the largest public sector pension scheme in the UK, which provides DB benefits to employees of local government employers and other organisations that have been chosen to participate.
- Local Pension Board (LPB)
  - Since April 2015, each Administering Authority has been required to establish and operate a Local Pension Board. The Pension Board is responsible for assisting the Administering Authority in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator. The Board is made up of equal representation from employer and scheme member representatives.

## M

- Mandate
  - The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.
- Market Value
  - A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market, also called market price.
- Maturity
  - A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
- Myners' Principles
  - A set of principles based on Paul Myners' 2001 report, Institutional Investment in the United Kingdom. The Myners' Principles for defined benefit schemes cover:
    - Effective decision-making
    - Clear objectives
    - Risk liabilities
    - Performance assessment
    - Responsible ownership
    - Transparency and reporting

## O

- Option
  - The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.
- Ordinary Shares
  - An ordinary share represents equity ownership in a company and entitles the owner to vote at the general meetings of that company and receive dividends on those shares if a dividend is payable.

## P

- Partner Funds
  - The Fund's chosen asset pool, BCPP, has 11 Partner Funds – Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire.
- Passive Management
  - A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index.
- Pension Liberation Fraud
  - Members with deferred benefits may be approached by companies offering to release funds early from these benefits. The Pensions Regulator has advised pension funds to make members aware of the potential warning signs of pension liberation fraud.
- Pensions Online
  - The Fund's online portal where scheme members may view their pensions records, complete retirement calculations and update personal details.
- Pensions Regulator
  - The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.
- Pooled Funds
  - Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.
- Pooling in the LGPS
  - Central government requires local authorities to pool their pension assets, to achieve four principles:

- Cost savings through economies of scale
  - Improved governance
  - Improved approach to responsible investment
  - Improved ability to invest in infrastructure
- Prepayment
  - The payments by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.
- Present Value
  - The value of protected benefit payments discounted back to the valuation date.
- Property Unit Trusts
  - Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.
- Proxy Voting
  - Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

## Q

- Quantitative Easing
  - Quantitative easing (QE) is when a central bank creates new money electronically to buy financial assets like Government bonds with the aim of directly increasing private sector spending in the economy and returning inflation to target.

## R

- Real Return or Real Discount Rate
  - A rate of return or discount rate net of (CPI) inflation.
- Related Party Transactions
  - This is an arrangement between two parties joined by a special relationship before a deal, like a business transaction between a major shareholder and a corporation.
- Responsible Investment (RI)
  - Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership through voting and engagement. RI can help deliver sustainable, long-term returns for investors.
- Retail Price Index
  - A method of measuring the changes in the cost of living. It reflects the movement of prices covering goods and services over time. Until April 2011, the amount by which LGPS pensions were increased annually was based on the movement in the Retail Price Index during the 12 months to the previous September. From April 2011 the

Government changed the amount by which pensions increase from Retail Price Index to Consumer Price Index (CPI).

- Return
  - The total gain from holding an investment over a given period, including income and increase or decrease in market value.
- Risk
  - The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.
- Rule of 85
  - Under previous LGPS regulations, when a member elected to retire before age 65, the Rule of 85 test was used to find out whether the member retired on full or reduced pension benefits. If the sum of the member's age and the number of whole years of their scheme membership was 85 or more, benefits were paid in full. If the total was less than 85, the benefits were reduced. The Rule of 85 was abolished on 1 October 2006 – however members contributing to the LGPS prior to this date will have some or all of their pension benefits protected under this rule.

## S

- Security
  - An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation, which offers evidence of debt or equity.
- Scheduled Body
  - An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.
- Section 13 Valuation
  - In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Ministry of Housing, Communities and Local Government in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.
- Section 151 Officer
  - The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the County Council and the preparation of the County Council's Statement of Accounts.
- Socially Responsible Investment (SRI)
  - Investments or funds containing stocks in companies whose activities are considered ethical.

- Spot Rate
  - The price quoted for immediate settlement on a commodity, security or currency. It is based on the value of an asset at the moment of the quote, which in turn is based on how much buyers are willing to pay and how much the sellers are willing to accept depending on factors such as current market value and expected future market value.
- State Pension Age
  - The earliest age at which State Pension can be paid, which is different to the earliest age LGPS may be claimed. Under the current law, the State Pension age is due to increase to 68.
- Stock
  - A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or equity.
- Stock Lending
  - This is loaning a stock, derivative or other security to an investor or firm. It requires the borrower to put up collateral (cash, security or a letter of credit). When stock is loaned, the title and the ownership is transferred to the borrower and title is returned at the end of the loan period.

## I

- TCFD
  - The Taskforce on Climate Related Financial Disclosures was set up to develop voluntary, consistent climate related financial risk disclosures to guide companies in providing information to investors, lender, insurers and other stakeholders. It is expected that MHCLG will consult on mandatory TCFD disclosures in the LGPS by the end of 2021.
- The Pensions Advisory Service (TPAS)
  - The Pensions Advisory Service (TPAS) gives information and guidance to members of the public on state, company and personal pensions. It helps any member of the public who has a problem with their occupational or private pension arrangements. TPAS is an executive non-departmental public body, sponsored by the Department for Works and Pensions.
- Tracking Error
  - An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.
- Transaction Costs
  - Those costs associated with managing a portfolio, notable brokerage costs and taxes.

- Transfer Value
  - A transfer value is a cash sum representing the value of a member's pension rights.
- Transferred Service
  - Any pension that members have transferred into the LGPS from a previous pension arrangement that now counts towards their LGPS membership.
- Transition
  - To move from one set of investment managers to another.

## U

- UK Stewardship Code
  - A code first published by the FRC in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of beneficiaries. The Code was revised in 2020.
- Underwriting
  - The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).
- Unit Trusts
  - A unit trust is a pooled fund in which small investors can buy and sell units. The pooled fund purchases investments and the returns are passed on to the unit holders. It enables a broader spread of investments that investors could achieve individually.
- Unrealised gains/losses
  - The increase or decrease in the market value of investments held by the fund since the date of their purchase.

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