



PENSIONS PARTNERSHIP

Commonly Used Abbreviations

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

LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LPB	Local Pension Board
LSE	London Stock Exchange
MAC	Multi Asset Credit
MHCLG	Ministry of Housing, Communities and Local Government
MSCI	Formerly Morgan Stanley Capital International, publisher of global indexes
NED	Non-Executive Director
NT	Northern Trust, Custodian
OECD	Organisation for Economic Co-operation and Development
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PRI	The UN-supported Principles for RI
RI	Responsible Investment
RPI	Retail Price Index
S&P	Standard and Poor's, ratings agency and provider of equity indices
S151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board
SDG	The UN's Sustainable Development Goals
SILB	Sterling Index Linked Bonds
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
TCFD	Taskforce on Climate Related Financial Disclosures
TER	Total Expense Ratio
TPR	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 t 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.