

**Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection**

Report to:	<b>LGPS Local Pension Board</b>
Date:	<b>25 July 2018</b>
Subject:	<b>Asset Pooling Update</b>

**Summary:**

This report updates the Board on progress of the creation of Border to Coast, the Fund's chosen asset pool.

**Recommendation(s):**

That the Board notes the report.

**Background**

1. As the Board are aware, the Lincolnshire Fund has been working closely with 11 other partner funds since 2015, to create the asset pool now known as Border to Coast Pensions Partnership Ltd (Border to Coast). Since the last update given at the March meeting of this Board, much progress has been made to ensure that Border to Coast was operational in July 2018, and ready to start the first transition of assets. This paper will summarise the key progress points to date, and outline the timetable for this Fund's first asset transition.
2. Border to Coast is now live. FCA approval for Border to Coast was received in April, and FCA approval for the first four sub-funds was received in May. The team have moved into the new offices in Leeds and the staffing numbers have been steadily increasing, as the internal teams have transferred across and new recruits have started. Border to Coast held an open day in early July inviting fund officers and S151's to meet the new team, see the offices, and to provide the Border to Coast new staff with an insight into the LGPS and how the governance works, and also the expectation Funds have of Border to Coast.
3. Border to Coast have completed their statutory accounts, under the small companies exemption, for the first period of operation to 31st March 2018. While these were minimal in content, this enabled future statutory financial reporting period ends to be aligned to the Partner Funds. A clean bill of health was given by the external auditors KPMG, and the accounts were approved by the Border to Coast Board on 24th May. These have also been distributed

to shareholders as required. The Border to Coast website is currently being restructured, and when complete the accounts will be published to meet the general transparency principles agreed.

### **Joint Committee Meetings**

4. The Joint Committee (JC) last met on 13<sup>th</sup> March 2018, and the papers were circulated to all Pension Board members. The minutes will be circulated once approved, and below are the key decisions made from each paper:
  - Shareholder Director proposals – the process for nomination and the criteria for these two positions was agreed. Nominations from Partner Funds would be submitted ahead of the July JC and the JC would select two candidates to be put to the Company's Board for approval, and then shareholder consent would be sought for the appointees.
  - Project and strategic updates – the JC were updated on progress to date, risks identified and the budget outturn predicted for the project, and also on the key strategic areas of work: sub-fund launches, manager selection, investment processes, governance of approval for transitions and transition management.
  - ACS Prospectus – the key elements of the prospectus were reviewed, and the approach for sign-off was agreed.
  
5. The next JC meeting is being held on 10<sup>th</sup> July and papers have been circulated to Board members. Key areas to be covered are shown below:
  - Conduct of Elections for Chair and Vice-Chair of Joint Committee and Nominees for Directorship of Border to Coast Pensions Partnership;
  - Governance Charter;
  - Joint Committee Membership (see paragraph 6 below);
  - Border to Coast Performance Measures;
  - Revised Conflicts of Interest Policy;
  - Border to Coast Project Update;
  - Border to Coast Transition Planning 2018-2020;
  - Border to Coast ACS UK Listed Equity Alpha Fund; and
  - Border to Coast Alternatives Capability Build.

## **Joint Committee Membership**

6. The Joint Committee has previously considered the issue of employer and/or scheme member representation and had not taken it forward, having had due regard to the guidance available at the time. The Scheme Advisory Board has recently reviewed their guidance and has amended it to include that consideration should be given to direct representation on oversight structures, and that where representation is not offered, the reasoning should be explained, and that clear reasons be set out why this is not considered appropriate.
7. The Committee and Pension Board considered this issue at previous meetings and had agreed that the place for employer and member representation was at the Committee and Board, and that it was not necessary at the Joint Committee. Differing opinions were held across some of the Border to Coast Partner Funds, and the issue will be considered again at the July JC meeting, and the resolution will be reported to the Board.
8. Should a decision be taken to co-opt employer and/or scheme member representatives onto the Joint Committee, it is proposed that the representatives should be sourced from the existing local boards.

## **Advisor Days**

9. Two advisor days were held in May by Border to Coast, for the Partner Fund's investment consultants and advisors to enable them to meet the senior management team and to provide an overview of the sub-funds being created and the manager selection process.

## **Manager Open Days**

10. Border to Coast held five "Open Day" sessions over two days in June, and representatives from over 130 asset management firms attended. The objective of these sessions was to inform the industry about Border to Coast, and to provide a high level explanation of the expected timetable for searching for managers for the external sub-funds. Feedback was that this was very well received.

## **Transitions**

11. One of the initial principles in creating Border to Coast was that costs of the initial transitioning assets into the pool would be done in an equitable way. Opinion from Legal Counsel regarding the sharing of transition costs has been received and Border to Coast is liaising with MHCLG regarding options for the Partner Funds. This will be fully resolved ahead of any transition of the Lincolnshire Fund's assets.
12. As previously reported, Legal & General Investment Management (LGIM) have been appointed as the transition manager for the first transition tranches, including co-ordinating Northern Trust and the Partner Funds'

existing custodians. Additional transition strategy planning and oversight monitoring of LGIM throughout the transition is being provided from Analytics. Extensive tax advice has also been provided by Deloitte.

### **Externally Managed Funds – Manager Selection Process**

13. The first externally managed sub-fund will be launched in Q4 this year (UK equities), with Global Equities following that. It is expected that a number of managers will be appointed to each external sub-fund, rather than single manager sub-funds. Mercer has been appointed to act as the manager search advisor and to assist with the assessing of complementarity across potential managers. The following principles have been agreed to apply to all manager selections exercises:
  - Open, fair and transparent procurement process in line with OJEU principles;
  - Border to Coast should drive the selection process and not be constrained by consultant ratings or 'buy' lists;
  - Blending managers seeks to provide greater consistency of, and therefore better risk adjusted, returns;
  - ESG to be an important selection criterion;
  - Operational Due Diligence is also an important consideration and should be undertaken prior to any manager appointment;
  - Standardised Investment Management Agreements, where practical; and
  - Long term relationships – manager changes are disruptive and costly.
14. Officers are working closely with Border to Coast and Mercers to ensure that the sub-fund offerings and the strategic asset allocations of the Partner Funds are aligned.

### **Client Relationship**

15. Two people have been appointed to run the Customer Relationship Management and Reporting Team at Border to Coast: Mat Dawson, ex Warwickshire County Council Pension Fund and Andrew Stone, L&G Investment Management.
16. The team is dedicated to working with the Partner Funds to ensure that Border to Coast understands customer requirements both in terms of short-term information and reporting provision and longer-term investment capability required to support Strategic Asset Allocation decisions and deliver sustainable long term performance. Initially they will be focused on helping Partner Funds through their transition to Border to Coast sub-funds; over the

longer term Border to Coast hope that the relationships will evolve into a strategic partnership that provides measurable results for the Partner Funds.

17. Mat and Andrew will be the key points of contact for the Fund going forwards, and have been invited to present to the December meeting of the Pensions Committee.

### **Next steps for Lincolnshire**

18. The initial transition of any assets from the Lincolnshire Fund is not expected until next year. In order to ensure that the strategic asset allocation is aligned with the Border to Coast offerings, a meeting has been arranged in July with officers, the Investment Consultant and the Independent Advisor. A training Committee has been diarised for 11<sup>th</sup> September, to which Board members have been invited, to present the outcome of that meeting and to agree any amendments to the asset allocation.
19. Proposals for the externally managed Global Alpha (+2%) sub-fund will be brought to the October meeting of the Pensions Committee, to agree any allocation from the Lincolnshire Fund.

### **Conclusion**

20. Significant progress has been made on the asset pooling project, and Border to Coast Pensions Partnership is now live and receiving assets. Officers (both Fund officers and S151 officers) are working closely with Border to Coast as assets are beginning to be transitioned.
21. As the sub-funds proposals are being developed, the Fund will ensure that, where feasible and where it does not impact the overall expected outcome, the asset allocation is aligned.

### **Consultation**

#### **a) Have Risks and Impact Analysis been carried out?**

Yes

#### **b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

### **Background Papers**

Not applicable.

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