

Open Report on behalf of Andrew Crookham - Executive Director of Resources

Report to:	Lincolnshire Pension Board
Date:	07 January 2021
Subject:	Border to Coast Pensions Partnership - Deep Dive

Summary:

The report brings to the Board details on the operation and governance arrangements in place at Border to Coast Pensions Partnership, Lincolnshire Pension Fund's chosen asset pool.

Recommendation(s):

That the Board note the report, consider if there is any further information they would like to receive, or actions they would like to take.

Background

1.0 INTRODUCTION

- 1.1 In July 2015, the new Conservative Government announced a major shake-up to the Local Government Pension Scheme (LGPS) in England and Wales. The 89 local authority funds would be required to pool their investments. The objective was that by investing collectively, the LGPS could use its size to improve investment opportunities and reduce costs. Hymans estimated that pooling could result in investment management savings of between £190m - £300m per year, after 10 years.
- 1.2 Eight LGPS pools were launched across England and Wales in 2018. The funds were Access, Border to Coast Pensions Partnership (Border to Coast), Brunel Pension Partnership, LGPS Central, Local Pensions Partnership, London CIV, Northern LGPS and Wales Pension Partnership.
- 1.3 Lincolnshire is a member of Border to Coast along with ten other local authorities, namely Bedfordshire, Cumbria, Durham, East Riding, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire. Originally, there were 12 funds but Northumberland merged with Tyne and Wear during 2020.

2.0 BORDER TO COAST

- 2.1 Border to Coast Pensions Partnership Limited is incorporated in the United Kingdom. The Company is now owned by 11 Funds. The Annual Report & Accounts at 31st March 2020 shows that there were 12 ordinary shares of £1 each (A shares) and 9,999,996 non-voting redeemable shares of £1 each (B shares), giving allotted, called up and fully paid up share capital of £10,000,008.
- 2.2 At the 31st March 2020, the Lincolnshire Pension Fund held 833,333 B shares but purchased a further 75,757 in 2020/2021 to reflect the reduction of partner funds, effectively buying a proportion of Northumberland's shares.
- 2.3 There are 8 Directors on the Board – 4 Independent Non-Executive Directors, 2 Partner Fund Nominated Non-Executive Directors and 2 Executive Directors. The 2 Partner Fund Nominated Non-Executives were brought onto the Board from September 2019. The decision to add these two Nominated Non-Executives was not unanimously supported by all partner funds. To support its effective operation, the Board has established five Board Committees: an Audit Committee, a Board Risk Committee, Remuneration & Nominations Committee, a Private Markets Committee and the Administration Committee.
- 2.4 The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs, having due regard to its shareholders, customers and other stakeholders as a whole. The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed.
- 2.5 In carrying out its responsibilities, the Board must have regard to what is appropriate for the Company's business and reputation, the materiality of the financial and other risks inherent in the business and the relevant costs and benefits of implementing specific controls.
- 2.6 Border to Coast is approved and regulated by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM). This means the Company and its employees must meet certain standards of conduct in the operation of its business. The FCA may carry out investigations if it believes that an organisation is not meeting the appropriate standards. The FCA has wide-ranging powers of intervention and sanction.
- 2.7 In a regulated collective investment vehicle like the Border to Coast Authorised Contractual Scheme (ACS), a Depositary is appointed to act on behalf of the investors. Northern Trust has been appointed as the depositary for the Border to Coast ACS. Its duties include:
- i) Safeguarding assets of the authorised fund via its custody services or utilising a sub-custodian;

- ii) Oversight of the manager's activities, for example, unit pricing, dealing, portfolio management;
- iii) Oversight of how the manager is discharging its responsibilities;
- iv) Cash flow/liquidity oversight;
- v) Distributions;
- vi) Protecting the best interests of investors; and
- vii) Reporting breaches of FCA guidance to the FCA (including any due diligence findings).

2.8 The fact remains that Border to Coast is an investment management company, like for example JP Morgan, Newton, Janus Henderson, etc. BUT WHOLLY OWNED by 11 local authority pension funds. Border to Coast's performance as a company is overseen by the shareholder representatives from the eleven administering authorities (see later), both on an ongoing basis and formally once a year at its AGM.

2.9 The shareholders agreement sets out the process to follow if the Lincolnshire Pension Fund, or any of the partner funds, wished to exit Border to Coast. The process is as set out below:

- Any Administering Authority may withdraw on giving not less than 12 months' notice to expire on 31st March in any year.
- On withdrawal, the exiting Fund (shareholder) must pay any outstanding sums owed to the company which have been incurred before the withdrawal date, and which is properly attributable to the exiting shareholder's share membership of Border to Coast.
- On withdrawal, the company will buy back the shares of the exiting shareholder (subject to having the necessary capital) and the remaining shareholders will be required to replace any reduced regulatory capital caused by the withdrawal.

2.10 This is in effect what happened when Northumberland merged with Tyne & Wear.

2.11 Should any other LGPS Funds (or any private sector Pension Funds) wish to join Border to Coast, this would require the agreement of all Partner Funds. At this point in time, there are no plans to expand the membership of Border to Coast.

3.0 THE ADMINISTERING AUTHORITY AS THE SHAREHOLDER

- 3.1 Each Partner Fund has the right to exercise corporate control and oversight through its Administering Authority's ownership of Border to Coast as an equal shareholder. Each Fund, as shareholder, owns a single voting share, and through the exercise of its voting rights across a range of reserved matters demonstrates its exercise of "significant control" as required under "teckal" (Border to Coast is a teckal company i.e. one that is set up under the Teckal procurement exemption).
- 3.2 In general, the shareholders' role in the governance of a company is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place within the company. In the case of Border to Coast, shareholders also retain certain rights under a Shareholder Agreement entered into by all the shareholders at the time of its incorporation. These include approval of the annual strategic plan including annual budgets, cash flow, balance sheet, cost sharing and regulatory capital assessment, company pensions provision, admission of new shareholders and cost sharing.
- 3.3 The shareholder representative must be a nominated individual because the Administering Authority cannot physically appear at a Company's shareholder meeting. The shareholder representative for Lincolnshire is Andrew Crookham, the Executive Director of Resources. The shareholders carry out their duties typically by written resolution, with advice from the officers, Section 151 and monitoring officers, as deemed appropriate.
- 3.4 An informal shareholders meeting is held on the date of each Joint Committee meeting. In addition, the Senior Officers (S151) from each Fund hold a monthly telephone call with the Chief Executive of Border to Coast, where any upcoming shareholder resolutions are discussed, amongst other matters. Minutes from these meeting are not published, but the notes from the monthly call are shared with S151 officers following each call. In addition, notes are taken of the informal shareholders meeting by the officer in attendance and shared with the S151 if they are unable to attend.

4.0 ADMINISTERING AUTHORITY AS THE INVESTOR FOR THE PENSION FUND

- 4.1 Each local Administering Authority acts as scheme manager for each Pension Fund, and so is responsible, amongst other things, for investing and managing LGPS assets. The Pensions Committee in each Administering Authority is the decision-making body and as such sets the strategic asset allocation and investment strategy for the Fund. Under the pooling arrangements, this means that ultimately the Pensions Committee will no longer appoint and review the individual underlying investment managers. This task is the responsibility of Borders to Coast. This represents a fundamental change to the arrangements prior to pooling. The

Pensions Committee is responsible for reviewing the performance of Border to Coast, as the Fund's asset manager.

- 4.2 To enable the Funds to implement their investment strategy effectively and efficiently, Border to Coast, in partnership and working closely with the Partner Funds, is responsible for designing sub-funds with certain risk/return/liquidity characteristics that will provide the strategic “building blocks” for Funds to invest in.
- 4.3 Once the design is agreed, Border to Coast becomes the asset manager responsible for tactical matters such as implementation and on-going management of each sub-fund, management of internal investment capability, appointment and oversight of external managers, implementation of responsible investment (voting and engagement) policy, and tactical asset allocation within risk parameters agreed with the Funds.
- 4.4 The Pensions Committees are responsible for the review of whether the built sub-funds meet their strategic needs and, under their fiduciary duties, will review Border to Coast’s capability to deliver the objectives. This is done collectively through the group/individuals shown in the paragraphs below.

5.0 JOINT COMMITTEE

- 5.1 The Joint Committee (JC) is constituted from the 11 Pension Fund Committee Chairs and meets quarterly. It is the collaborative vehicle through which the individual Partner Funds provide collective oversight of the investment performance, capability and direction of Border to Coast. Its remit includes oversight of progress towards the pooling of Partner Fund assets as a whole.
- 5.2 The JC is a Section 102 Committee with agreed terms of reference – a copy is attached at **Appendix A**. The JC meetings are public and operated and reported as required. The Pension Board members receive copies of all the agenda papers and minutes.
- 5.3 The Chair and Vice Chair of the JC are elected by the members of the JC on an annual basis. Secretariat functions to support the JC are provided through the South Yorkshire Pensions Authority. Tyne & Wear Pension Fund act as host for all other matters.
- 5.4 As well as the 11 Pension Committee Chairs, JC meetings are also attended by representatives from Border to Coast, normally the Chair, Chief Executive, Chief Investment Officer, Chief Operating Officer and two Client Relationship Managers. In addition, the two Partner Nominated Non-Executive Directors attend. A Scheme Member representative also attends as observer, and their deputy can also attend. The Fund Officers also attend.

- 5.5 In advance of the formal Joint Committee, there is a private Fund's only meeting to ensure that any issues, concerns or questions that any of the JC members have can be discussed ahead of the formal meeting.
- 5.6 In the event of a major crisis, or loss of confidence, in the Board or Executive Directors of Border to Coast, the shareholders would be able to vote out the Directors.

6.0 OFFICER GROUPS SUPPORTING THE JC

- 6.1 The JC is supported by the respective Statutory Officers (S151 and Monitoring Officers) and the Officer Operations Group (OOG), constituted from the eleven Senior Pension Fund Officers. These groups meet to discuss issues and provide input to both Elected Members and Borders to Coast, as required.
- 6.2 The OOG meets bi-monthly, with part of the meeting being attended by Border to Coast, and part in closed session. The OOG works collaboratively to ensure that due diligence over the Border to Coast investment capabilities is carried out effectively on behalf of the Pensions Committee.

7.0 FINANCIAL POSITION

- 7.1 To-date, the Lincolnshire Pension Fund has incurred the following amounts in the creation of Border to Coast:

2017/2018 - £125.6k set up costs (reimbursed to the Tyne & Wear Pension Fund)

2018/2019 - £479.1k. Of this £48.6k related to set up costs, again reimbursed to the Tyne & Wear Pension Fund. The remaining costs of £429.9k were paid directly to Border to Coast and consisted of £171.0k governance charge for 9 months, implementation costs of £239.4k, development costs of £19.5k and asset management of £0.6k.

2019/2020 - Expenditure and income in the Border to Coast Accounts for 2019/2020 was £12.604m. The income comes from partner funds split between governance costs, development costs and the charge for asset management based on the funds' invested AUM and allocation to alternatives. The cost to the Lincolnshire pension fund was £370.2k made up of governance £193.7k, AUM £24.1k, development £61.9k and projects £90.5k.

- 7.2 In addition, as mentioned earlier, there was an investment of £1 for share capital A shares and £909.09k for B shares.

- 7.3 So to-date, Lincolnshire's direct expenditure on Border to Coast is £975k plus £909k in shares.
- 7.4 As mentioned in paragraph 1.1 at the time the concept of pooling was under discussion, Hymans produced a report stating that the estimated savings from pooling of investments would be between £190m - £300m per year, after 10 years. It was understood that when the pooling arrangements were in place, a cost benefit analysis would be undertaken. Work is currently underway with Partner Funds and Border to Coast to develop a template to capture and calculate savings achieved from pooling assets, although direct comparisons of costs will always be extremely difficult, given changes to asset allocations, asset values and investment performance. Cost savings are only one element of the benefits which are being brought about from pooling. Shared knowledge, increased resilience and access to specialised services to support the Funds (such as Responsible Investment) are also a benefit from pooling. Capturing the added value from these areas is much more difficult.

8.0 LOCAL PENSION BOARD

- 8.1 In line with its role in other administrative and governance matters, the local pension boards provide support and challenge to the various pension committees' decisions and decision-making process in relevant investment areas, and look to ensure appropriate governance is in place to provide effective monitoring.
- 8.2 As can be seen from the details above, the Border to Coast pooling arrangement has a very well defined governance structure, and is subject to comprehensive oversight and challenge from a number of key stakeholders, including shareholders, investors, industry and regulatory bodies.
- 8.3 The diagram at **Appendix B** shows the governance structure in place.
- 8.4 There are a number of questions that the Board may wish to consider:
- Is the Board comfortable with the governance arrangements for Border to Coast?
 - Should a Board representative attend the public part of a Joint Committee meeting?
 - Is the structure and attendance at the Joint Committee considered appropriate?
 - Should the Board have discussions with other Boards within Border to Coast?
 - Should the Board share this report with them?
 - Should the Board press for the cost benefit report on the savings?

Conclusion

9.1 This report provides the Board with details of the operation and governance structure in place at Border to Coast, Lincolnshire Pension Fund's chosen pool and an opportunity for the Board to discuss this and any future work they would like to undertake.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Pensions Partnership Joint Committee Terms of Reference
Appendix B	Border to Coast Pensions Partnership Governance Structure Diagram

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Roger Buttery, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Border to Coast Pension Partnership Joint Committee Terms of Reference

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.

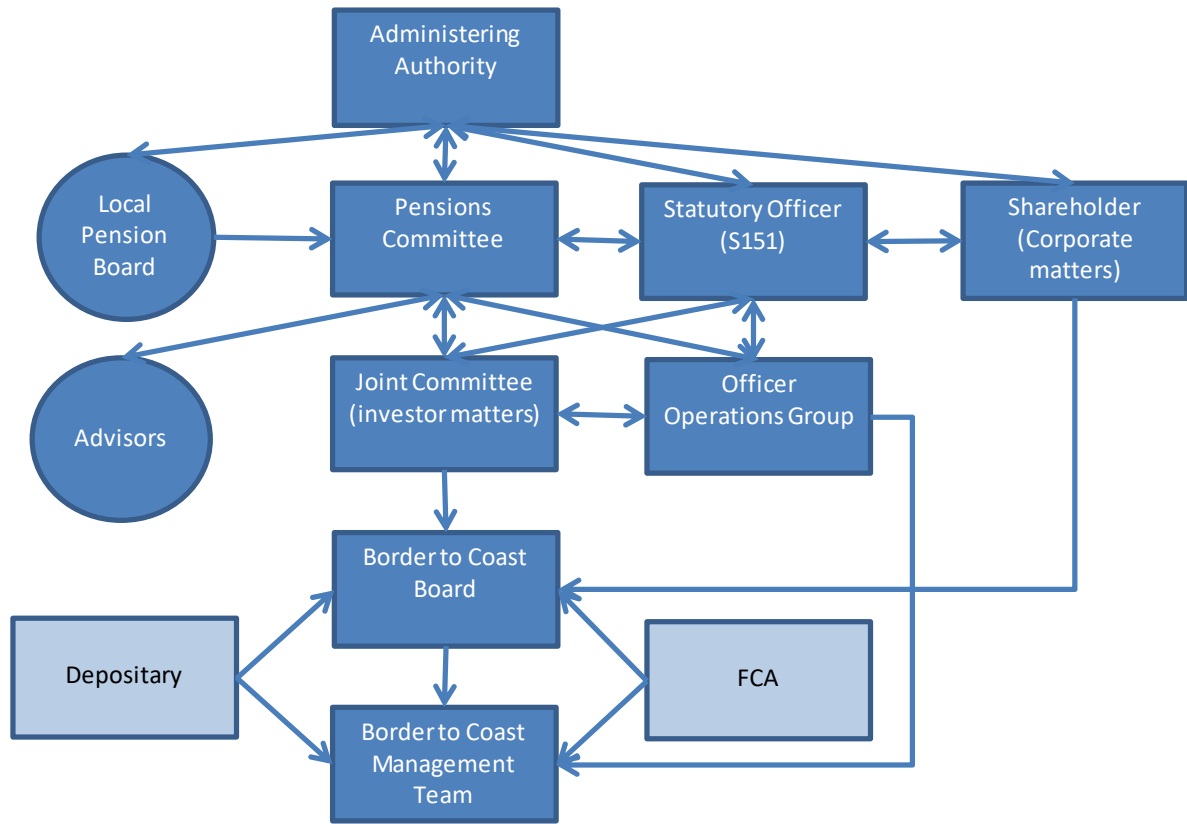
The remit of the Joint Committee is:

- 2.1. First phase – Period to April 2018 or operational commencement of the BCPP Pool (whichever is the later)
 - 2.1.1. To provide support and guidance to the work being undertaken by the Officer Operations Group to give effect to the pooling arrangements.
 - 2.1.2. To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with the Authorities to scrutinise and monitor project management arrangements and proposals for the appointment of advisers by the Authorities.
 - 2.1.3. To oversee costs to deliver the BCPP Pool, obtaining approval from individual Authorities where necessary.
 - 2.1.4. To monitor and scrutinise responsibilities for delivery of the project and relevant support arrangements.
 - 2.1.5. To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group.
 - 2.1.6. To formulate processes and policies for the appointment and termination of membership to the Joint Committee.
 - 2.1.7. To propose and confirm contracts and policies required by the Authorities to commence transition to the BCPP Pool arrangements.
 - 2.1.8. To provide support and guidance to the work being undertaken by the Officer Operations Group to do all things necessary to implement the final proposal, including preparatory work for asset transition.
 - 2.1.9. To consider the initial range of sub-funds to be provided by the ACS and to make recommendations to the BCPP Board for the creation of those sub-funds.
 - 2.1.10. To review and comment on the draft ACS prospectus and supporting documents on behalf of the Authorities prior to the Financial Conduct Authority approval.

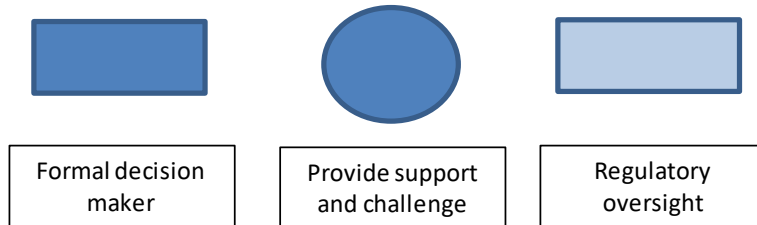
2.2. Phase 2 – Post Establishment and Commencement of Operations

- 2.2.1. To facilitate the adoption by the Authorities of relevant contracts and policies.
- 2.2.2. 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).
- 2.2.3. 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.
- 2.2.4. 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).
- 2.2.5. 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.
- 2.2.6. 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.
- 2.2.7. 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.
- 2.2.8. 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.
- 2.2.9. 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.
- 2.2.10. To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

Border to Coast Pension Partnership Governance Structure Diagram



KEY:



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