



## The Surrey Local Pension Board 17 January 2019

### Border to Coast update

#### Recommendations:

1. The Board is asked to **note** the content of this report.

#### Detail:

##### **Introduction**

2. The Border to Coast Pension Partnership (BCPP) Joint Committee (JC) is comprised of the elected members of the 12 partner funds of BCPP.
3. The Terms of Reference of the JC states the following:

“The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

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.”

4. This paper provides an update on the most recent JC meeting of 21 November 2019 and the Surrey Pension Fund Committee meeting of 16 November 2019.

##### **BCPP JC meeting 21 November 2019**

- (i) Scheme member representation
5. At its meeting of 10 July 2018 the JC made the following resolutions in relation to a report on the membership of the Committee:
  - That the Committee would not co-opt employer representative(s) onto the Joint Committee.
  - That the Committee agreed to participating, non-voting scheme member(s) being co-opted onto the Joint Committee.
  - Any scheme member representative(s) appointed should be a member of one of the funds participating in BCPP.

- The term of appointment(s) should be aligned to the Council’s municipal year.
  - Substitute(s) should be allowed.
  - If there was more than one scheme member representative, each representative should come from a different BCPP administering authority.
6. A report was presented which detailed options for the arrangements for appointing scheme member representative(s), options for the number of representative(s) to be appointed and a statement of the reasons for not appointing an employer representative which would be included in appropriate documentation such as the BCPP Governance Charter and would be published on the JC website.
7. It was noted that the collective view of 11 of the 12 Local Pension Board Chairs was a preference for two representatives. The JC Chair (Cllr McMurdo) proposed that one Scheme member representative be co-opted onto the Joint Committee. This was seconded by the JC Vice-Chair (Cllr Evans). Cllr Stowe proposed an amendment that two Scheme member representatives be co-opted onto the Joint Committee. This was seconded by Cllr Leask. Following a vote the amendment was defeated by seven votes to five.
8. The following was resolved:

That one Scheme member representative (together with standing substitute) be appointed from amongst Scheme member representatives on Partner Funds’ Local Pension Boards:

- That in the event of more nominations than places, selection be carried out by ballot on the basis of one Authority, one vote.
  - That the Committee agrees the role description for the Scheme member representative (See Annex 1).
  - That the Committee agrees the statement of reasons for not appointing other employer representative(s).
  - These roles are to be filled from amongst the scheme member representatives on the Local Pension Boards of the 12 Partner Funds, with any election being carried out on the basis of “one fund one vote”, consistent with other arrangements within the Partnership. The vote on behalf of any fund should only be determined by the scheme member representatives on that Fund’s local pension board.
9. It is desirable to have the representative and substitute in place for the next meeting of the JC. The Fund Director of the South Yorkshire Pensions Authority, George Graham, wrote to the Chairs of the 12 BCPP Local Pension Boards, outlining the schedule for appointments. This is as follows:
- Nominations together with a supporting statement of up to 250 words together with a digital photograph will be required by 31st January 2019.
  - Local Pension Boards should also submit by 31st January the contact details of the scheme member representative who will be casting their fund’s vote.
  - The process of election will need to be completed by 22nd February 2019.

(ii) JC budget

10. At the JC meeting in January a budget of £30,000 was approved to cover the period from July 2018 to March 2019. Any cost incurred prior to July 2018 was all part of the set up costs of pooling.
11. 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 and external) which may be required from time to time by all partner funds.

12. The Budget was set at £30,000 for nine months based on a basic cost estimate included in a report from Deloitte, obtained in May 2016, as part of the initial cost benefit analysis for the submission to Government. The forecast budget for the full year for 2019/20 is therefore £40,000.
13. At the current time it is difficult to determine whether this budget is at the appropriate level. This will be monitored both in year and for future years and adjusted accordingly.
  - (iii) Review of the Terms of Reference of the BCPP JC
14. The Inter Authority Agreement (IAA) signed by the administering authorities of the partner funds in June 2017 sets out the arrangements for the Joint Committee and includes the agreed terms of reference (see Annex 2).
15. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the Boarder to Coast pool.
16. These terms of reference cover the period to the operational commencement (first phase) as well as (second phase) post establishment and commencement of operations (second phase).
17. The terms of reference as set out in the IAA are still considered to be broadly reasonable and provide a good framework as to the remit of the Joint Committee. However, it should be recognised they were set at a time when the approach to pooling was still in its infancy and before the Company and the Joint Committee had been established and had a chance to mature.
18. Any revisions to the role of the Joint Committee will require a Deed of Variation to amend the IAA, which would require unanimous approval of the Partner Funds.
19. The JC agreed that the Terms of Reference were still considered to be broadly reasonable but it should be noted that they were set at a time when the approach to pooling was in its infancy.
20. The Chair expressed concern that the Shareholders had not yet met and requested that a meeting be held well before BCPP Ltd.'s AGM in July 2019. It was suggested that such a meeting could be held immediately after the March meeting of the Joint Committee. The Head of Pensions for the Tyne and Wear Pension Fund, Ian Bainbridge, to liaise with the Chair and the two Shareholder Non-Executive Directors (NEDs) to discuss this.
21. The JC agreed to the suggestion of establishing a Governance Sub-Group to firstly assist with the clarification of the roles of the Joint Committee and the BCPP Ltd Shareholders and then to revisit the Terms of Reference.
22. The Sub-Group would consist of the Chair, Vice Chair and Cllrs B Stevens and M Stowe, and the two Shareholder NEDs (Cllrs S Ellis and J Weighell). The Shareholder NEDs would only be involved in clarifying the roles of the Joint Committee and Shareholders. Chris Hitchen, the Chair of BCPP Ltd, also asked to

be involved when discussing the Shareholder role. Support from officers would be provided to this Sub-Group.

(iv) Responsible Investment Policy review

23. The JC considered a report which gave details of the annual review of BCPP Ltd.'s Responsible Investment Policy and Corporate Governance and Voting Guidelines ("the RI policies" (See Annexes 3 and 4)).
24. Members were informed that the existing policies had been reviewed by Robeco, the voting and engagement provider, considering the global context and best practice. BCPP was committed to becoming a signatory to the UN Principles for Responsible Investment, this would have an impact on the RI policies resulting in a number of changes, particularly regarding decision making, governance and reporting.
25. The review process with Partner Funds began with a RI workshop, following which the draft RI policies were put to BCPP's Investment Committee, presented to the BCPP Ltd Board and approved for sharing with the Partner Funds.
26. It was agreed that there were a number of areas where further research would be helpful ahead of the 2019 annual review. It was recommended that climate change be the research focus for 2019. Other topics included diversity (including gender pay gap), transparency and disclosure, the UN's sustainable development goals and tobacco.
27. The Corporate Governance and Voting Guidelines had been expanded to reflect global corporate governance trends. The key changes to the policy were the inclusion of sections referring to Board evaluation, stakeholder engagement, virtual shareholder meetings, shareholder proposals and share blocking.
28. The RI policies had undergone a substantial rewrite but this had not changed the underlying principles.
29. It was resolved that the revised RI policies be taken to the Partner Funds for comment and to consider adopting the principles in Funds' own responsible investment and share voting policies.

(v) CEO Project report

30. The report focused on the significant interactions with Partner Funds since the last meeting of the JC.
31. It was BCPP Ltd.'s first period with assets under management and the report provided a summary of the transitions and the first quarter's performance.
32. The report highlighted BCPP's view on strategic and current business risks. The Committee noted that implementation was progressing well, according to plan and within budget. A number of strategic areas for consideration across the partnership had been identified.

(vi) BCPP ACS Global Equity Alpha Fund

33. Members were reminded that the launch of the Global Equity Alpha Fund was currently targeted for July 2019.
34. BCPP was following a similar design and launch process for the sub-funds launched earlier in 2018. A working party of nominated Partner Fund officers had been considering the design of the fund; at this stage the amendment to the ACS prospectus had not been drafted.
- (vii) BCPP Alternatives capability - Investment proposition and process
35. This had been identified as a priority for Partner Funds and at the July 2018 JC meeting it had been agreed to provide funds to commence the design phase of the Alternatives capability. The report detailed the work that had been done during the initial phase to arrive at a recommended operating model.
36. There are two aspects to the launch – Shareholder approval to establish the legal structure and investor approval of the proposed investment design and their level of commitment (in principle, subject to due diligence).
37. The report covered:
- The Alternatives investment proposition including the benefits of pooling, expected quantum and sources of cost savings, and the investment process.
  - The risks associated with the implementation and the investment proposition and how they could be mitigated.
38. Pension Fund Officers are currently commissioning a legal advisor to review the proposed legal structure and advise all the Partner Funds.
- (viii) BCPP Alternatives capability – Target operating model
39. The report covered the Shareholder aspects, specifically:
- The legal structure, including the requirement for Shareholders to approve the creation of new BCPP subsidiaries, and Authorities to sign limited partnership agreements and subscription documentation.
  - The regulatory implications, including the requirement to seek a variation of permission with the FCA.
  - The operating model including rationale and business case for the options recommended to BCPP Ltd.'s Board.
  - The proposed procurement strategy including the selection of appropriate service providers and the provision of legal and tax advice.
  - The risks associated with the implementation of the operating model and how they would be mitigated.
- (ix) BCPP Budget and business plan
40. The report provided members with an update on:

- The core activities progressed in BCPP operational areas of the organisation since the last meeting.
- The main activities planned for the next period.
- The outturn for the Implementation Budget which showed an underspend. It was proposed that this budget was now closed and the underspend and any remaining items that emerged be charged to the 2018/19 nine-month operating Budget.
- The predicted 2018/19 Operating Budget outturn following the first quarter's trading.
- The initial work undertaken in the 2019/20 Budget and the future governance process for approval of this by Shareholders.

### **Pension Fund Committee meeting 16 November 2019**

#### **(i) Transition to the BCPP UK Equity Alpha Fund**

41. At its meeting of 8 June 2018, the Surrey Pension Fund Committee approved in principle the transition of the UK active equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when it was established, assuming that the “necessary conditions” of governance have been satisfied.
42. The Committee also approved the delegation of authority to the Executive Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the UK equity portion of the Surrey Pension Fund portfolio to the BCPP, assuming that the “necessary conditions” of governance have been satisfied.
43. Further to the review of the equity strategy, agreed by the Committee at its meeting of 8 June 2018, the UK active equity assets make up 20% of the total equity allocation in the Surrey Pension Fund (c£471.6m).
44. On October 15 2018, the Executive Director of Finance, in consultation with the Chairman of the Pension Fund Committee authorised the transition of the UK active equity portion of the portfolio in to the BCPP UK Equity Alpha Fund.
45. The key objectives of the BCPP UK Equity Alpha Fund are:
  - Long term outperformance net of fees.
  - A blend that improves risk adjusted returns.
  - Long term partnerships, to avoid manager churn.
  - Integration of responsible investment good practise.
46. A full analysis of savings and costs will be undertaken once the Post Transition Report has been received.
47. Officers from BCPP and the Surrey Fund, along with the transition advisor, Analytics, and the transition manager, LGIM, will now monitor and manage the transition, in accordance with the transition project plan.

48. The Committee noted that compliance with the “necessary conditions” of governance for the BCPP UK Alpha fund was met on 15 October 2018 and that the transition of the UK equity portion of the Surrey Pension Fund portfolio to the BCPP has commenced.

(ii) Transitioning of global equity assets to BCPP

49. The BCPP Global Equity Alpha Fund is expected to launch in July 2019 and will exclusively use external investment managers.

50. The OOG and statutory Fund officers have worked with BCPP to establish a set of “necessary conditions” that need to be met in order to satisfy the approval of the transition Partner Fund assets in to BCPP Sub-funds. The Executive Director of Finance, in consultation with the Chairman of the Pension Fund Committee, will only approve the transition of the global equity portion of the Surrey Pension Fund portfolio national pool when its design has been established to the satisfaction of officers and its advisors and assuming that the “necessary conditions” of governance have been satisfied.

51. The “necessary conditions” are shown below:

<b>Necessary conditions</b>
<p><b>Legal documentation:</b></p> <p>Significant oversight of drafting of documentation with involvement from BCPP team and Board, Eversheds, Deloitte, Northern Trust, OOG and FCA.</p>
<p><b>Investment proposition due diligence:</b></p> <p>Fit with strategic asset allocation requirements and understanding of process, particularly for external manager selection and fund construction)</p>
<p><b>Plan for sub-fund launch trajectory:</b></p> <p>Transition timeline</p>
<p><b>Operational readiness (including Northern Trust)</b></p>
<p><b>Risk management plans (including contingency planning)</b></p>
<p><b>Transition plans</b></p>
<p><b>Approach to ongoing oversight</b></p>

(iii) BCPP Alternatives proposition

52. In recognition that a significant element of the business case for pooling is driven by Partner Fund cost savings in, and enhanced access to, private markets, BCPP has been investigating how to bring forward the implementation of alternatives investment capability.
53. This is a complex build with elements requiring approval by the BCPP Board, Shareholders and partner funds. These elements include the business case and the legal structure (which require Shareholder approval) and the investment philosophy (which informs Customers' decisions to invest).
54. The design of the proposed Operating Model is expected to be completed by early to mid-October 2018. In line with the BCPP design principles, it is envisaged that the bulk of investment administration and portfolio analytics will be outsourced with appropriate oversight.
55. A significant proportion of the cost savings generated by BCPP are expected to be in Alternatives. Cost savings are expected to be generated as follows:
- Reducing management fees through economies of scale;
  - Reducing exposure to fund of funds which add a further layer of investment management fees;
  - Increasing exposure to relatively lower cost co-investment funds; and
  - Increasing exposure to direct co-investments which generally have zero fees.
56. The Surrey Pension Fund currently has a target asset allocation for private equity of 5% of the portfolio. The Committee approved (subject to meeting "necessary conditions" prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation to Private Equity within the BCPP Alternatives investment proposition.

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**Sources/background papers:**

**Annexes:**

1. Role description for the Scheme Member Representative
2. JC Terms of Reference
3. BCPP Ltd.'s Responsible Investment Policy
4. BCPP Ltd.'s Corporate Governance and Voting Guidelines