

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 16 DECEMBER 2022****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCE & COMMERCIAL****SUBJECT: BORDER TO COAST PENSIONS PARTNERSHIP UPDATE****SUMMARY OF ISSUE:**

Border to Coast Pensions Partnership (BCPP) is now an established fully regulated asset management company when the authorised contractual scheme (ACS) went "live" on 26 July 2018. The Surrey Pension Fund started transitioning assets in quarter four of 2018 and continues this through 2022. This paper provides the Pension Fund Committee (Committee) with an update of current activity being undertaken by the Border to Coast Pensions Partnership (BCPP).

RECOMMENDATIONS:

It is recommended that the Committee:

1. Supports the revised Border to Coast Responsible Investment (RI) Policy 2023, Climate Policy 2023 and Corporate Governance & Voting Guidelines 2023, subject to the continuing work between the Fund and Border to Coast to align our approaches consistent with the Fund's standalone RI Policy, Voting Policy and commensurate with feedback from the Fund, as set out in paragraph 18.
2. Approves the proposed changes to the Stakeholder agreement, Articles of Association and Inter Authority Agreement outlined in this report and recommends approval by full Council.
3. Recommends to full Council that all future decisions in respect of BCPP matters are delegated in the following way:
 - a) Inter authority agreement matters (joint committee) – to the Pension Fund Committee
 - b) Articles of Association and shareholder agreement matters – to the shareholder representative (the Section 151 officer or their delegate, in consultation with the Chair of the Pension Fund Committee).
4. Notes the background and progress of BCPP activity, including details of the following:
 - a) Schedule of activity since the last Committee meeting of 23 September 2022 until the end of the calendar year.
 - b) BCPP Joint Committee (JC) meeting of 20 June 2022, 29 September 2022 and 30 November 2022.

REASON FOR RECOMMENDATIONS:

To keep the Pension Fund Committee apprised of the progress made by the Officer Operations Group (OOG), Joint Committee and BCPP Shareholder Board in the drive to maintain a fully functioning asset pool, which will manage the significant majority of the Surrey Fund assets. This is consistent with the Fund's strategic investment and governance objectives.

DETAILS:**Revised BCPP Responsible Investment (RI) Policy 2023, Climate Change Policy 2023 and Corporate Governance and Voting Guidelines 2023.**

1. The BCPP Responsible Investment policy sets out the BCPP approach to RI and stewardship, the Corporate Governance & Voting Guidelines set out their approach and principles to voting, and the Climate Change Policy sets out their approach to managing climate risk and opportunities.
2. The policies are reviewed annually or when material changes need to be made. As the Climate Change Policy was developed and published last year, the governance process is now being aligned with that of the other RI policies. The annual review process commenced in July to ensure any revisions are in place ahead of the 2023 proxy voting season.
3. Current policies were evaluated by Robeco, BCPP's voting and engagement provider, considering the global context and shift in best practice. This included consideration of the recently revised International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.
4. The policies of best-in-class asset managers, and asset owners considered to be RI leaders were also consulted with by BCPP, to determine developments across the industry. They have also taken into account the Investment Association Shareholder Priorities for 2022.
5. Regular RI workshops have been held for the Officers Operation Group (OOG) and the Joint Committee where the approach to Net Zero by 2050 was discussed including selection of metrics and associated targets.
6. The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2023 proxy voting season. After considering feedback from the Officer Operation Group and the Investment Committee, the revised policies were approved by the BCPP Board on 11th November.

RI Policy: key changes

7. This year's RI Policy review reflects work undertaken during the year; this includes the Net Zero commitment. All changes are shown as track changes in the attached Annexe 1, with a clean version shown as Annexe 2.

8. Human rights are an area receiving increased focus from investors. To support this social engagement theme, BCPP have joined an initiative led by the PRI. To recognise the importance of this area they have highlighted their expectation of companies in the RI Policy, including reference to further detail on their voting approach in our Voting Guidelines.
9. Minor amendments have been made to some of the specific sections when integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, and the impact of the BCPP Net Zero commitment.
10. Due to the development and publication of a standalone Climate Change Policy, the climate change section within the RI Policy was significantly reshaped last year. This included reference to the exclusions put in place for thermal coal and oil sands. Due to the BCPP Net Zero commitment, it was articulated that subsequent Climate Change Policy reviews could lead to reductions in the revenue thresholds for exclusions.
11. When considering any exclusions, BCPP conduct analysis of the associated material financial risk of a company's business operations and whether they have concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour.
12. As part of this year's annual RI policies review process the approach has been revisited by BCPP. Revenue thresholds for thermal coal and oil sands have been reviewed with analysis conducted across equity and fixed income funds, associated benchmarks and the MSCI Universe to identify potential companies that managers may also invest in off benchmark. BCPP propose to decrease the revenue threshold to >70% for investments in public markets, with a lower threshold of 25% for private markets to reflect the long-term nature of these investments. This still reflects the risk criteria used to determine the original exclusions in last year's policy.
13. Controversial weapons were highlighted as an area to consider for exclusions last year but due to a lack of data and ability to screen portfolios effectively this was deferred. As additional screening tools are now available the analysis of cluster munition companies has been conducted across portfolios, associated benchmarks and the MSCI Universe.
14. Following this the proposal is to extend the exclusion policy to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions.
15. As exclusions have broadened following this annual review, BCPP now have a separate section in the policy specifically detailing their approach.
16. Consistent with their support for a just transition BCPP recognise that not all countries are at the same stage in their decarbonisation journey. They propose to assess the implications of the thermal coal and oil sand exclusions and may make exceptions if they consider this to be appropriate.
17. Minor amendments were made following feedback from Partner Funds. This includes additional wording at 6.2.3 regarding the direction of travel for

revenue thresholds on thermal coal and oil sands, and wording on just transition and Emerging Markets.

18. Surrey have voiced concerns about the appropriateness of proposed revenue thresholds for exclusion of <70% for thermal coal and oil sands in public markets. We have questioned whether companies with revenues approaching this level indicate a realistic intent to make the necessary transition to decarbonisation. Although no B2C portfolios currently include exposure to thermal coal and oil sands companies, B2C have agreed to provide worked examples should such investment opportunities be considered.

19. The proposed amendments to the RI policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
1. Introduction	2	Amendment	Update on UK Stewardship Code signatory status.
1.1 Policy framework	3	Amendment	Revised diagram to include Climate Change Policy
2. What is responsible investment	3	Amendment	Insertion of 'opportunities'.
3. Governance and implementation	3	Amendment	Revision on use of term 'sustainability'.
5. Integrating RI into investment decisions	4	Amendment	Remove 'internally and externally managed'.
	4	Addition	Add 'Pay conditions' to table under social issues
	4	Addition	New text on human rights.
5.2 Private markets	5	Addition	Reference to annual monitoring questionnaire.
5.4 Real estate	6	Amendment	Revised in line with TCFD report.
5.5 External manager selection	6	Addition	Update on climate change and net zero.
5.6 Climate change	7	Amendment	Text on exclusions cut and moved to new section.
	7	Addition	New text on just transition.
6 Stewardship	7	Amendment	Update on Stewardship Code signatory status

Section	Page	Type of Change	Rationale
6.1.1 Use of proxy advisors	8	Amendment	Removal of Voting & Engagement provider name.
6.2.3 Exclusions	11 - 13	Addition	New section on exclusions.
6.3 Due diligence and monitoring procedure	13	Amendment	Removal of Voting & Engagement provider name.
8. Communication and reporting	13	Addition	Reporting on progress on implementation of Net Zero Plan.
10. Conflicts of interest	14	Addition	Includes reference to stewardship conflicts.
Appendix A	14	Addition	New section referencing third-party providers.

20. The policies were presented to the BCPP Board on 9th November and the revisions approved. There is then a period where Partner Funds take the revised policies to their committees to begin their internal alignment process. The revised policies will be effective from 1st January 2023.

Voting guidelines: key changes

21. The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2022 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text. All changes are shown as track changes in the attached Annexe 3, with a clean version shown as Annexe 4.
22. As BCPP have one set of Voting Guidelines that cover all markets, there have been some additions/amendments to reflect best practice or local market standards. This assists the proxy adviser and their Voting & Engagement provider, when interpreting the Voting Guidelines and making voting recommendations.
23. During last year's policy review, feedback was received on the text covering stakeholder engagement. To ensure that wider stakeholders are referenced, not just shareholders, additional wording has been included in this section.
24. A new section on human rights has been included to support the addition to the RI Policy.
25. Amendments have been made to the climate change section to continue to strengthen the Voting Guidelines in this area and to support BCPP's Net Zero commitment.
26. This year BCPP have revised when they will vote against the Chair of the board based on the Transition Pathway Initiative (TPI) assessment of companies, moving to level 2 for high emitting sectors, and level 3 for Oil and Gas companies. They have also made revisions when reviewing companies

failing Climate Action 100+ Net Zero Benchmark indicators and will vote against the Chair where a company fails one or more of the first four indicators.

27. As banks will play a pivotal role in the transition to a low carbon economy, BCPP have set out climate-related voting intentions for the sector. They propose to assess banks using the framework developed by the Institutional Investors Group on Climate Change (IIGCC) and the TPI. They will vote against the Chair of the Sustainability Committee, or appropriate agenda item if a company fails the first four indicators of the framework.

28. Proposed amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below:

Section	Page	Type of Change	Rationale
Composition and independence	3	Amendment	Remove 'large cap'.
	4	Addition	Detail on expectations of overall board tenure.
Leadership	4	Addition	Clarification on voting intention, considering market practice.
Diversity	5	Amendment	Expectations of FTSE 100 and FTSE 250 companies.
Succession planning	5	Amendment	Remove 'solely' to cover all jurisdictions.
Stakeholder engagement	6	Addition	Additional reference to key stakeholders and expectations of the board.
Long-term incentives	8	Addition	To cover standards for other markets.
Human rights	14	Addition	New section to articulate voting approach and expectations of companies.
Climate change	12	Amendment	Text amended to reflect changes to Climate Change Policy.
	13	Amendment	Revised thresholds for TPI and CA100_ indicators.
	13	Addition	New text regarding banks
	13	Addition	New text on just transition.

Climate change policy: key changes

29. The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry.

30. The original Policy highlighted areas for focus over the 12-months post publication in October 2021. These have also been captured in the proposed

updates and amendments. The main changes are detailed below. All changes are shown as track changes in the draft Policy attached as Annexe 5, with a clean version shown as Annexe 6.

31. The Just Transition was not previously referenced in the Policy. BCPP believe this is an important area as the transition to a low carbon economy should consider all stakeholders and be inclusive whilst recognising global inequalities.
32. The roadmap only covered the 12-months to September 2022, this has been replaced with the reporting and monitoring timeline included in the Net Zero Implementation Plan which provides milestone out to 2050.
33. As BCPP have used the Net Zero Investment Framework (NZIF) and joined the Net Zero Asset Managers initiative (NZAM) this has been added to the Policy. The scope of the assets covered and high-level wording on targets is now included. Extra detail is also included on the expectations of BCPP's external managers regarding engagement, and how they will work with them on implementing specific decarbonisation parameters for these mandates.
34. An update on exclusions was presented to the August Investment Committee. Following an in-depth discussion, the recommendation was to reduce the revenue threshold for thermal coal and oil sands to 70% and include a lower threshold (25%) for private markets, this is to reflect the illiquid nature of these types of investments. Surrey's position on this was noted in paragraph 18.
35. The engagement section has been updated. This includes revising the wording on how BCPP will exercise their votes in relation to companies in high emitting sectors. These are in line with the proposed revisions to the Voting Guidelines. Reference has also been made to the IIGCC's Net Zero Stewardship Toolkit which they have used to further develop their stewardship approach, aligning with NZIF and our membership of NZAM.
36. Some minor updates have been made to the disclosures and reporting section to include how BCPP will report on progress against our Net Zero commitment.
37. The amendments to the Climate Change Policy are highlighted in the table below:

Section	Page	Type of Change	Rationale
2.1. BCPP views and beliefs on climate change	2	Addition	Impact of climate change on the investment universe.
2.2 Why climate change is important	3	Addition	Reference to physical and transition risk.
	4	Addition	Included text on a Just Transition.
2.4 Roadmap	6	Revision	Replace with timeline going out to 2050.

Section	Page	Type of Change	Rationale
3.1 BCPP ambition – Net zero	7	Amendment	Reference use of NZIF and joining NZAM.
3.5 Regulatory change management	8	Revision	Reviewed by Head of Compliance.
4.1 How BCPP identify climate-related risks	8	Revision	Revised in line with TCFD report.
4.2 How BCPP assess climate-related risks and opportunities	9	Revision	Update on climate change scenario analysis.
5.1 BCPP approach to investing	9	Addition	Text on engagement as a key lever for reducing emissions – investee companies and fund managers (private markets).
	10	Amendment	Revise exclusion threshold to 70% from 'pure'; 25% for illiquid assets.
5.2 Acting within different asset classes	10	Addition	Extra data sources used.
	10	Amendment	Reference to Climate Opportunities offering.
	10	Addition	Reference to targets set at portfolio and asset class level.
5.3 Working with external managers	11	Addition	Engagement expectations.
	11	Addition	Encourage managers to set firm wide net zero commitment and join NZAM. Working with managers on decarbonisation parameters for mandates.
6. Engagement and advocacy	11	Addition	Reference to engagement with regulators, policy makers etc.

Section	Page	Type of Change	Rationale
6.1 Our approach to engagement	11	Addition	Additional areas for engagement e.g. Just Transition.
	12	Amendment	Revisions to voting text in line with proposed revisions to Voting Guidelines.
	12	Addition	Reference to use of Net Zero Stewardship Toolkit.
7. Disclosures and reporting	12/13	Amendment	Reporting on Policy implementation and progress against Net Zero commitment.

The Governance Framework of BCPP

38. The three main governance documents which support the establishment and running of BCPP are:
- a) Shareholder matters: Shareholder Agreement / Articles of Association.
 - b) Joint committee matters: Inter Authority Agreement.
39. A review of the BCPP Governance is currently in progress, as it has been five years since BCPP was established and the initial governance framework approved by the shareholders.
40. The review includes the operation of the Joint Committee, a review of shareholder governance (which will be discussed with shareholder representatives) and a review of the governing documentation (including the Inter Authority Agreement, Shareholder Agreement, and the Company's Articles of Association).
41. A four-stage process was proposed:
- a) Stage 1 - initial work to discuss the areas identified below (and any others considered relevant) and agree the matters to be put forward to stage 2, together with a proposed basis for consideration.
 - b) Stage 2 – involves a cross section of interests covering Partner Funds (both Members of the Joint Committee and Officers) and company. This group considered the initial proposals from Stage 1.
 - c) Stage 3 – involves a review of the proposed changes by an external legal advisor. They carried out a high-level review of the key governance documentation to establish if there are any other provisions in the agreements that need to be amended. Consideration was also given to

how to effect any changes to these legal agreements. For example, does each Administering Authority need to get sign off at full Council of changes to these agreements, as the agreements were initially taken to full council.

- d) Stage 4 – implementation. Each Partner Fund and the Board will progress through relevant governance process.
42. All Partner Funds and BCPP will need to agree to the proposed changes. A verbal update on the position will be given to the JC.
43. The focus of the review is to update the terms of reference of the JC, which are contained in the Inter Authority Agreement and the Shareholder Reserved Matters which are included in the Shareholder Agreement. There are also some changes proposed to the Articles of Association for BCPP, which broadly set out how the company should be run. A summary of the main changes is shown below:
- a) The appointment of the Chair and Vice Chair is currently restricted to two consecutive terms of one year. It is proposed that this is changed to two consecutive terms of two years.
 - b) The quorum for the JC is to be changed from 8 out of 11, to 60% of the voting members which would be 7 out of 11.
 - c) The creation of an urgent action protocol that allows a decision to be taken outside of a normal meeting schedule. This would be a form of delegated power exercised by the Host Authority (currently South Tyneside) in consultation with the Chair and Vice Chair.
 - d) The removal of several items currently under the remit of the JC where they are no longer considered relevant, because they relate to the period before BCPP became operational or they are now considered to be shareholder matters.
 - e) The Shareholder Reserved Matters are split into two categories. The first requires 100% approval from shareholders and the second currently requires 75% approval (or 9 out of 11). It is proposed to change the 75% limit to 66.6% (which will be 8 out of 11).
 - f) As with the Terms of Reference of the JC, some of the Shareholder Reserved Matters are no longer relevant, as they covered the initial set up period. These items will be removed.
 - g) Additional clarification of some of the matters reserved for approval by shareholders has been sought from the legal advisors and the language may therefore be amended. This is to be discussed with BCPP and its legal team.
 - h) Amending a clause with a financial limit in order to set the limit by reference to a formula. This will help future proof the provision.
 - i) Removal of the requirement for shareholders to approve a conflicts of interest policy for BCPP. This is a company matter. However, shareholders will still be required to approve any conflict or potential conflict of interest any director may have.
 - j) To increase the maximum number of directors from 8 to 10. The appointment of any directors will still be a shareholder reserved matter.

44. Although not specifically covered in any of the Governance Documents, the administering authorities acting as shareholders of BCPP had determined that any Non-Executive Director nominated by the administering authorities should serve a two-year term for a maximum of two terms. It is proposed that this be changed to two, three-year terms.
45. One issue that will need to be addressed is that some changes may be needed in respect of the re-organisation of Cumbria County Council, which will result in a change to the administering authority of the Cumbria County Council Pension Fund. The best way to address this is still under consideration but may result in some changes to the Articles and Shareholders' Agreement to cover this and future proof similar scenarios in the future. However, given that this is unlikely to be contentious, partner funds have been asked to progress with the current documentation and this will be addressed prior to the final sign off.
46. Once the final documentation is agreed and each Administering Authority has determined its own approach to seeking approval, the review can progress to implementation. The approach at Surrey will be for any proposed changes to be approved firstly by the Pension Fund Committee and recommended for approval by Surrey County Council.
47. Draft versions of the governance documents have been shared with Partner Funds earlier this year. These were considered by the Surrey Local Pension Board and the Chair of the Committee. The documents have been discussed with BCPP and been subject to review by the Surrey legal team as well external lawyers (Eversheds Sutherland for BCPP and Squire Patton Boggs on behalf of the partner Funds).
48. Squire Patton Briggs (SPB) have shared their final review findings with each partner fund. SPB, has issued a letter of advice (Annexe 7).
49. SPB confirm that they are comfortable that the changes being made to the documents are acceptable from a legal perspective and can be agreed by the Partner Funds. The Surrey legal team have also been consulted and are satisfied with this due diligence carried out by SPB.
50. The Surrey pension fund's membership of BCPP was originally approved by full council on the 17 March 2017, as the County Council's pooling option to provide compliance with the legislation that mandates pooling.
51. In accordance with recommendation 2 in this report, the Committee is asked to approve the proposed changes to the Stakeholder agreement, Articles of Association and Inter Authority Agreement outlined in this report and recommend approval by full Council.
52. In accordance with recommendation 3 in this report, in order to promote good governance, the Committee is also asked to recommend to full Council that

future decisions in respect of BCPP matters are delegated in the following way:

- a) Inter authority agreement matters (joint committee) – to the Pension Fund Committee.
- b) Articles of Association and shareholder agreement matters – to the shareholder representative (the Section 151 officer or their delegate, in consultation with the Chair of the Pension Fund Committee).

Schedule of activity

53. The table below notes activity of partner Funds with BCPP since the last Committee meeting of 23 September 2022 until the end of the calendar year:

September 2022		
26 th September	BCPP - levelling up / impact / local investing Workshop	Discussion on direction of travel following consultation.
29 th September	Joint Committee Meeting	
29 th – 30 th September	BCPP Conference	
October 2022		
3 rd October	Officer's Operations Group Meeting	
6 th October	Regional Equity Alpha	Design discussion on development of the Regional Equity Alpha Fund.
17 th October	Internal Management – Quarterly Update	To cover the previous quarters investment management and performance following the issuing on the Quarterly Investment report.
18 th October	External Management – Quarterly Update Part 1	To cover the previous quarters investment management for UK Equity Alpha, Global Equity Alpha & Emerging Markets Hybrid.
20 th October	External Manager update	Presentation from one of the External Managers on Markets, Philosophy and Performance.
21 st October	External Management – Quarterly Update Part 2	To cover the previous quarters investment management for Investment Grade Credit & MAC.
27 th October	Alternative Investments – Quarterly Update	To cover the previous quarters investment management and performance following the issuing on the Quarterly Investment report.
November 2022		
7 th November	Green Bonds	Follow up workshop to discuss potential design ideas for Green Bond investments.
15 th November	Joint Committee Responsible Investment Workshop	Workshop on the annually reviewed BCPP Responsible Investment Policy
30 th November	Joint Committee Meeting	
December 2022		
5 th December	Officer's Operations Group Meeting	
12 th December	Alternatives Series 2b Pipeline	Workshop to look at the investment pipeline for the launch of Series 2b of the Alternatives Fund range

BCPP Joint Committee (JC) meeting 30 November 2022 (summary)

54. The BCPP JC is made up of the Chairs of the respective Pension Fund Committees from the 11 Partner Funds. The primary purpose of the JC is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

Scheme Member Representatives Election Results

55. Terms of the Inter Authority Agreement (IAA) together with the Joint Committee's Constitution and other subsequent decisions and agreements require that elections are held for Scheme Member Representatives.
56. Following the resignation of Deirdre Burnet a by-election has been held for a scheme member representative. The voting constituency was made up of scheme member representatives of partner fund Local Pension Boards (the scheme member representative for the Surrey Local Pension Board is Trevor Willington). The election was conducted by South Yorkshire Pensions Authority during November and the results were as follows:
- a) Lynda Bowen: 6 votes.
 - b) Karen Thomson: 3 votes.
 - c) Nil returns: 2.
57. The election process also provided an opportunity to consult on whether Scheme Member Representatives should be limited to two terms of two years. The views of the consultees were as follows:
- a) Agree: 7 votes.
 - b) Disagree: 2 votes.
 - c) Nil Returns: 2 votes.
58. The JC agreed the following:
- a) The appointment of Lynda Bowen as a Scheme Member Representative.
 - b) there should be no term limits for Scheme Member representatives.

JC budget

59. The budget for the JC covers costs incurred by the JC 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.
60. The budget for the JC in 2022/23 is £40,000.
61. Total spend to date is £25,300.

Investment capability

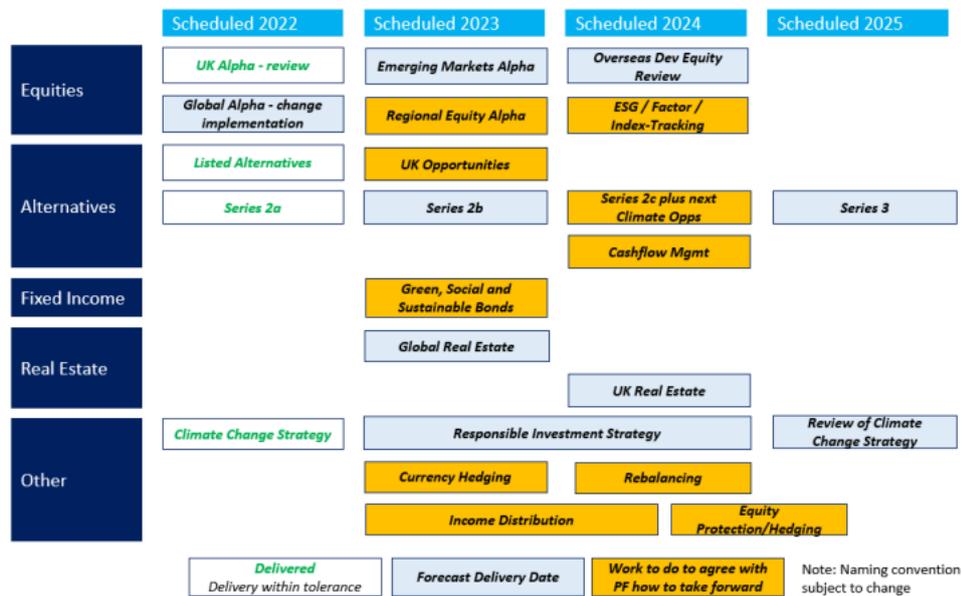
62. Achieving our purpose of making a difference to investment outcomes really begins in earnest when assets are pooled. A fundamental objective is therefore to transfer assets, always in the context of value for money and sustainability. To support this, significant work is undertaken between Border

to Coast and Partner Funds on an ongoing basis to understand needs and objectives.

63. BCPP and Partner Funds have previously agreed the process for working collectively and in partnership to identify the “building blocks” required to support Partner Funds’ strategic asset allocations. This takes into account Partner Funds’ 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.
64. The 2022-2025 strategic plan set out the continued process of launching these core building blocks. Great progress has been made in 2022, with the roadmap for real estate and an externally managed Emerging Markets equity fund well underway. With many of the core building blocks now in place, or soon to be, there is the opportunity to assess wider capabilities that can add value and further strengthen the benefits provided by pooling. In this respect, BCPP have also carried out initial work to scope out the potential design of a Green, Sustainable and Social Bonds solution, as well as a UK Opportunities capability.
65. BCPP and Partner Funds have considered the future capability development including new funds, capabilities and changes to existing funds. The Partner Funds have been undertaking reviews of their investment strategy alongside the results of their 2022 Actuarial Valuation. They are relatively early in the review cycle and, whilst some reviews are complete, the majority of these are progressing in the coming months. With recent market developments, Partner Funds are revisiting earlier decisions or evolving their strategies to reflect a higher yield environment. Therefore, at this stage, there is still some uncertainty on strategic needs in the near term.
66. This year, discussions on Partner Fund priorities have primarily been through the OOG meetings as well as a number of direct 1-to-1 meetings with the Partner Funds. These 1- to-1 conversations are still ongoing, and there remains a degree of uncertainty due to strategy reviews and changing market conditions. Set out in section 5 is an indicative plan for 2023-2026, with the following key points:
- A) The launch of real estate and an externally managed Emerging Markets equity fund remains a high priority in the near term. BCPP also propose to continue our work on UK Opportunities and Green Sustainable Social Bonds into 2023.
 - B) Hedging and income distribution was scheduled to be considered in 2023/24. BCPP now propose to consider options for income distribution and currency hedging in 2023. Equity protection will be considered in 2024, as well as rebalancing and cashflow management which are both reliant on Northern Trust capabilities.
 - C) BCPP ongoing launches of Alternatives will continue. BCPP propose to bring forwards the launch of the next Climate Opportunities iteration from 2025 to 2024.
 - D) The degree of passive investment will drive the level of assets transferred. As previously noted BCPP plan to give further consideration to passive solutions, in particular those with a tilt towards ESG factors, in 2024 but some design work may take place in 2023.
 - E) The demand and viability for Regional Equity continues to be explored with Partner Funds.

- F) BCPP will monitor demand for new capabilities that they understand are being discussed with consultants as part of ongoing strategic reviews, including natural capital, asset backed securities, absolute return bonds and small cap equities. Further consideration of these will be subject to two 'red-lines': the need for solutions to have scale and be viable throughout an economic cycle.
- G) Part of the development process includes an assessment of the changes required to our operating model, including any additional resources, which feeds into the assessment of the value for money business case. The strategic plan will not reflect such resources until we have agreement to proceed to build (property and private markets being two areas that could require substantive additional resource). Launch timings for funds still to go through the design phase are indicative only.

- 67. The approach to asset transfer and fund design / launch was last reviewed with the Joint Committee in November 2021. BCPP continue to take feedback and learn from each sub-fund launch, and are monitoring progress using the quarterly Management Information.
- 68. With an uncertain outlook, and work on investment strategy still ongoing, BCPP need to have the ability to respond to changing conditions and requirements. With this in mind, the schedule will be kept under review, and it may be appropriate to hold back resource to allow the response to be agile.
- 69. Based on discussions to date so far, and the latest understanding of Partner Fund priorities, the indicative fund launch plan to 2026 is set out below:



70. The graph below shows the total picture for expected transition of assets into the pool:

- a) Solid green line: expected transition based on the 2019/20 Investment Strategy Statement ("ISS") and the 2020 BCPP budgeting forecasts agreed with the Partner Funds.
- b) Dotted green line: best estimate of transition based on ongoing discussions between BCPP and Pensions Officers. This can diverge from

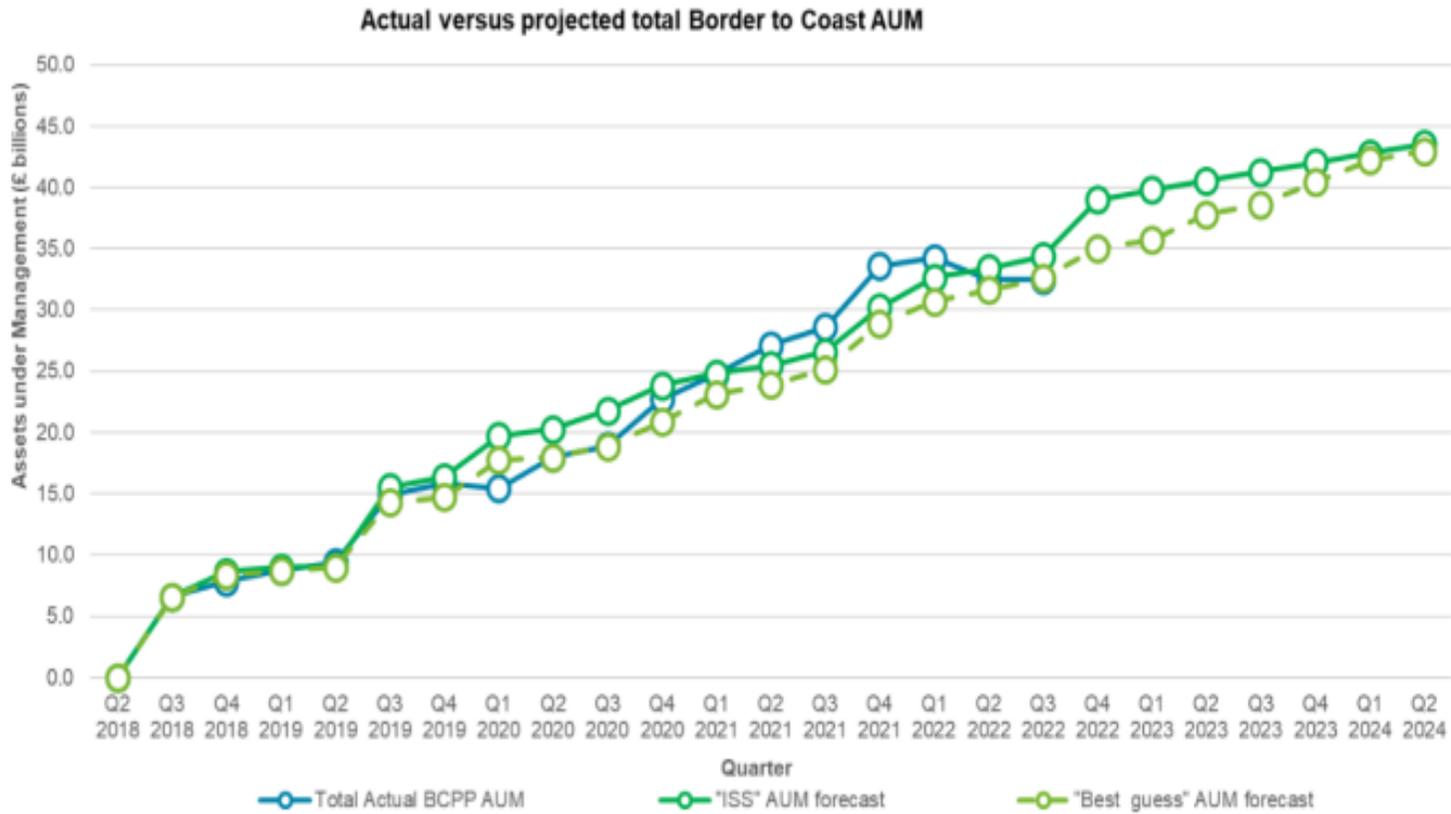
the ISS due to differences between tactical and strategic asset allocation; Partner Funds not allocating in full; and/or assumed timing of transition. This is not the same as committed assets (which follow the due diligence and Pension Committee process) and may also change as Partner Funds review their ISS.

- c) Blue line: actual AUM transferred to date (this is subject to market value fluctuations).

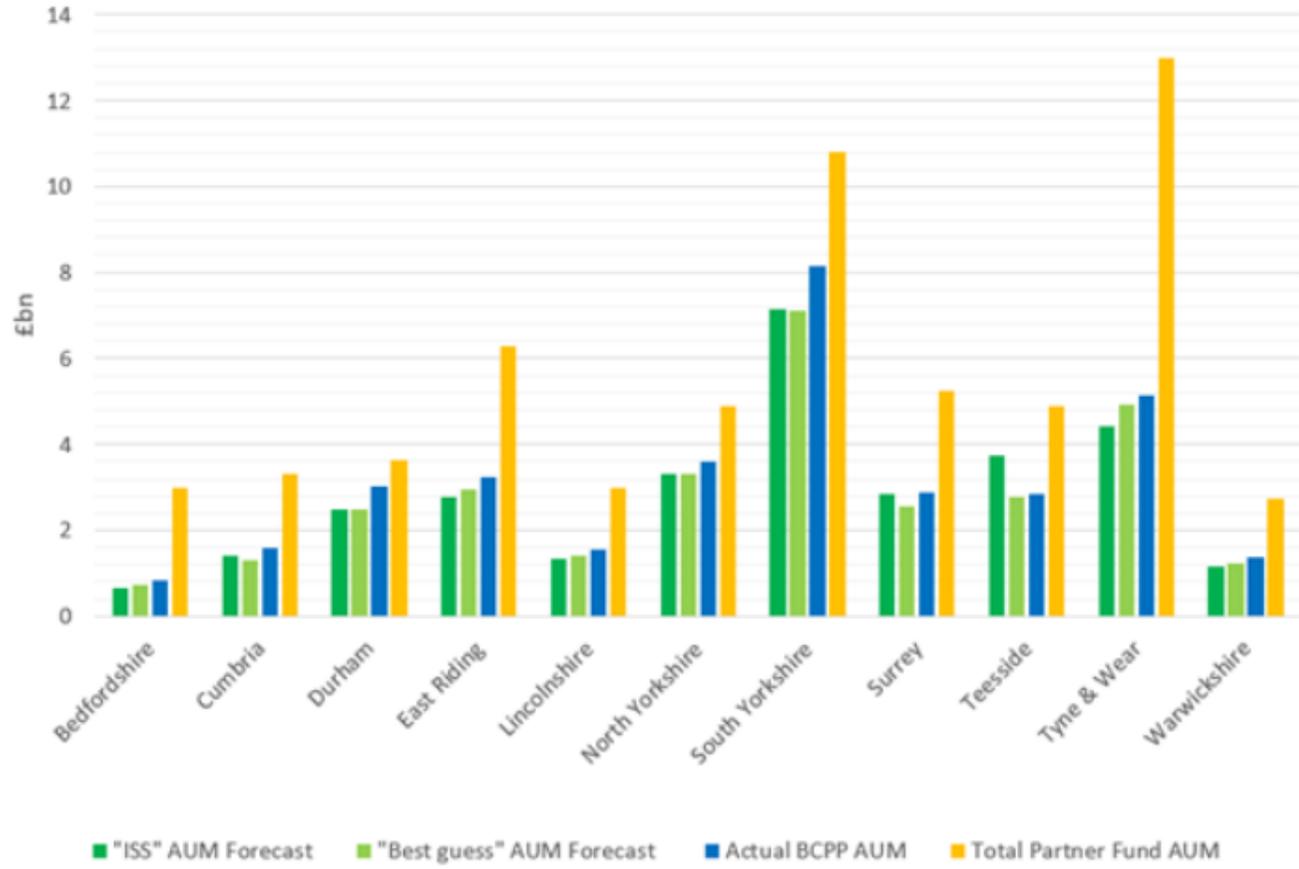
71. This is used to inform discussions with Partner Funds regarding fund design and underpins the strategy of BCPP as an organisation – enabling Partner Funds to hold each other to account on the commitments they have made to each other to pool, as well as holding BCPP to account on the development of propositions. It is also used to inform potential impacts on Partner Fund invoicing as the business grows.

72. The difference between total pool assets and assets available to pool is primarily driven by passive assets, but there are also legacy alternative assets where the process for transition has yet to be agreed.

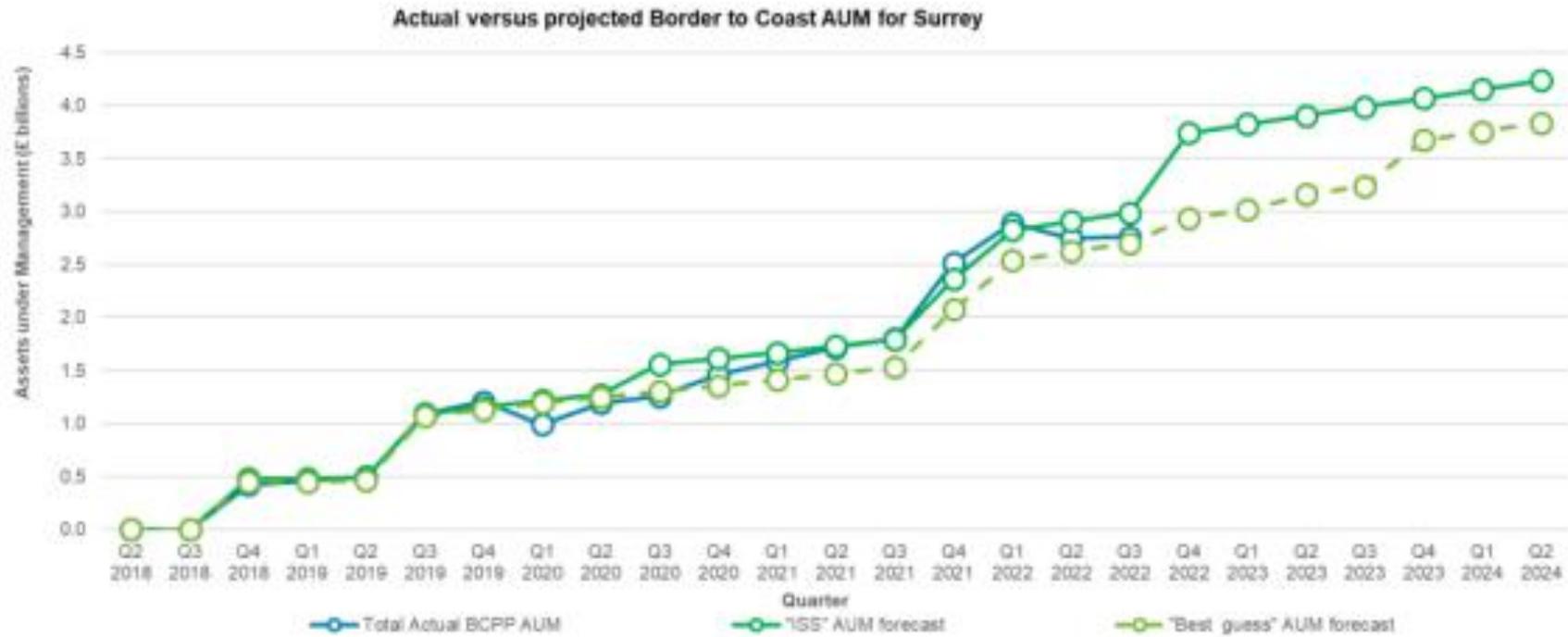
73. Illustrated by the below graph, investment within BCPP funds is broadly in line with the ISS expectations:



74. The following chart shows the split by Partner Fund as at 30 September 2022:



75. The following chart shows Surrey's tracked position as at 30 September 2022:



76. 'Actual' and 'expected' track relatively well with a modest gap between ISS projections and commitment. Surrey has a modest gap between ISS projections and the expected investments with BCPP due to maintaining an allocation to gilts outside of the pool. The Funds invests in equities, multi-asset credit, listed alternatives and alternatives with BCPP. The Fund has considered their Strategic Asset Allocation at a high level alongside the results of the Actuarial Valuation and is expected to finalise the detail of this in 2023, following consideration of their approach to climate change. Surrey is intending to transfer its property holdings to the BCPP solution, subject to due diligence. There is a 27.1% passive allocation, including allocation to Future World Fund.

CONSULTATION:

77. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

78. The consideration of risk related issues is an integral part of the BCPP project plan and a risk register is presented to every Officer Group and Joint Committee meeting.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

79. The full cost/benefit analysis of pooling will be established when all assets are transferred, and a reliable track record established.

DIRECTOR CORPORATE FINANCE & COMMERCIAL COMMENTARY

80. The Director Corporate Finance & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed. The Director Corporate Finance & Commercial will continue to work closely with other officers and the other BCPP S151 officers to ensure effective governance and assurance of administering authority responsibilities under the new pooling arrangement.

LEGAL IMPLICATIONS – MONITORING OFFICER

81. The pool's appointed legal advisors have provided legal support for relevant issues, as outlined in this report. Surrey's legal team have been consulted in respect of proposed governance changes.

EQUALITIES AND DIVERSITY

82. There are no equality or diversity issues.

OTHER IMPLICATIONS

83. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

84. The following next steps are planned:

- a) Proposed governance changes to be presented to Full Council for approval.
 - b) Continued allocation to BCPP private market opportunities in private equity, infrastructure and private credit.
 - c) Subject to completion on necessary conditions, transition the property element of the Surrey Pension Fund portfolio to the BCPP property sub-funds.
 - d) Subject to completion on necessary conditions, transition the Emerging Market equity element of the Surrey Pension Fund portfolio to the BCPP Emerging Market Equity Alpha sub-fund.
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Contact Officer:

Neil Mason, Assistant Director – LGPS Senior Officer

Consulted:

Pension Fund Committee Chairman

Annexes:

1. Draft BCPP RI policy (with tracked changes).
2. Draft BCPP RI policy (clean).
3. Draft Corporate Governance & Voting Guidelines (with tracked changes).
4. Draft Corporate Governance & Voting Guidelines (clean).
5. Draft Climate Change Policy (with tracked changes).
6. Draft Climate Change Policy (clean).
7. Squire Patton Boggs: Letter of advice

Sources/background papers:

1. Shareholder Agreement.
 2. Articles of Association.
 3. Inter Authority Agreement.
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