

**NORTH YORKSHIRE COUNCIL**

**PENSION FUND COMMITTEE**

**24 MAY 2024**

**INVESTMENT ARRANGEMENTS WITH BORDER TO COAST**

**Report of the Treasurer**

**1. PURPOSE OF REPORT**

- 1.1. To set out the legal requirement to pool pension fund assets and how North Yorkshire Council is addressing this through Border to Coast.

**2. BACKGROUND**

- 2.1 In November 2015, the Government issued an Investment Reform Criteria and Guidance document inviting proposals for pooling. This required all LGPS administering authorities to submit to Government initial and detailed proposals by 19 February 2016 and 15 July 2016 respectively.
- 2.2 On 1 November 2016, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force. These Regulations mandate that the separate Local Government Pension Scheme Funds in England and Wales combine their assets into a small number of investment pools.
- 2.3 The Secretary of State has direction and intervention powers if not satisfied that an administering authority is complying with its obligations in relation to the Regulations.
- 2.4 In order to meet the requirements of these regulations, North Yorkshire Council was involved in the creation of Border to Coast Pensions Partnership Limited (Border to Coast).
- 2.5 Border to Coast is an alternative investment fund manager, authorised by the Financial Conduct Authority (FCA) and wholly owned by eleven Local Government Pension Scheme (LGPS) administering authorities, including North Yorkshire Council.
- 2.6 Border to Coast operates investment funds for these local authorities to invest pension fund assets, to assist in the implementation of their investment strategies and asset allocation requirements. The assets under management across the eleven partner funds are valued at approximately £60 billion.
- 2.7 In 2019 the Ministry of Housing Communities and Local Government (MHCLG, now DLUHC, the Department for Levelling Up, Housing and

Communities) consulted with selected interested parties on updated guidance. The response on this consultation was never published.

2.8 Another consultation was published by DLUHC on 11 July 2023, *Local Government Pension Scheme (England and Wales): next steps on investments*. The Fund submitted a response by the deadline of 2 October 2023, a copy of which was included in the agenda for the 15 September 2023 Pension Fund Committee meeting.

2.9 On 22 November 2023 the Government published [Local Government Pension Scheme \(England and Wales\): next steps on investments – government response](#). This reflected on the 152 responses received and set out their plans to:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity

2.10 Barring a few minor details, these intentions are in line with the consultation document. It is understood that new guidance will be published in due course which will replace the initial 2015 guidance. It is possible that the guidance will be published before the summer recess.

2.11 On 28 March 2024 DLUHC published [Preparing the Pension Fund Annual Report Guidance for Local Government Pension Scheme Funds April 2024](#).

This guidance document introduced a range of new requirements including some aimed at addressing some of the aims of the pooling consultation. They include reporting on investments inside and outside of pooling arrangements, the proportion of assets invested in private equity, and the proportion of assets supporting the government's Levelling Up agenda.

- 2.12 Under the pooling arrangements, the Pension Fund Committee remains responsible for setting the funding strategy and the high-level investment strategy, e.g. the appropriate asset allocation for the Fund. The main difference with pooling is that the Fund will not be directly making its own investments, unless it is not possible to do this through Border to Coast. Instead, the Fund will be monitoring the performance of the investments in the Pool.
- 2.13 The work on developing Border to Coast continues and this report provides an update to the Committee.

### **3. GOVERNANCE – JOINT COMMITTEE**

- 3.1 As part of the Governance arrangements for Border to Coast, a Joint Committee has been established. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the funds managed by Border to Coast.
- 3.2 The Joint Committee is comprised of one member from each of the eleven partner funds. They are typically the Pensions Committee Chairs, but not in every case. The Chair of the Joint Committee is Councillor Doug McMurdo from Bedfordshire, and the Vice Chair is Councillor George Jabbour from North Yorkshire. Also, on the Joint Committee, but in a non-voting capacity, are two scheme member representatives nominated by the eleven partner fund Pension Boards.
- 3.3 The Joint Committee arrangements are hosted by South Yorkshire. The most recent meeting was on 26 March 2024. Agenda papers and minutes are available at <https://meetings.sypensions.org.uk/mgGeneric.aspx?MD=bordertocoast&bcr=1&zTS=D>. The confidential papers have been circulated to Pensions Committee members separately.

### **4. GOVERNANCE – THE COMPANY**

- 4.1. The current Board of Directors of the company is made up as follows.

- Chris Hitchen, Non-Executive Chair
- Rachel Elwell, Chief Executive Officer (CEO)
- Fiona Miller, Chief Operating Officer (COO)
- Kate Guthrie, Non-Executive Director (NED)
- Tanya Castell, Non-Executive Director (NED)
- Andrew November, Non-Executive Director (NED)
- John Holtby, Non-Executive Director (NED)

- David Coupe, Non-Executive Director (NED)
- 4.2. Councillor John Holtby (East Riding), and Councillor David Coupe (Teesside) are the two Partner Fund nominated Non-Executive Directors (NEDs) on the Board. The appointments to these two positions followed recommendations by the Joint Committee, approval by the Board of Border to Coast, and approval by the Financial Conduct Authority (FCA).
- 4.3. North Yorkshire Council, as the administering authority of the North Yorkshire Pension Fund, is the named shareholder in Border to Coast, owning a 1/11<sup>th</sup> share of the company.

## 5. WORKING GROUPS AND OTHER ARRANGEMENTS

- 5.1. Where appropriate, working groups have been created to provide support to the arrangements to pool assets and to ensure appropriate engagement with the funds. North Yorkshire is represented in all areas where arrangements may impact on the Fund's investments.
- 5.2. Until now, Border to Coast has reported on the quarterly performance of each fund at each Joint Committee meeting. Going forward, this is changing to there being an annual review for each fund, with three or four funds being reported at each meeting. Matters arising each quarter will be reported on an exception basis. These annual reports will then be available to report to partner fund committees.
- 5.3. The first batch of reports is comprised of annual reviews of the Global Equity Alpha fund and the UK Equity Alpha, in which North Yorkshire invests, as well as the Emerging Markets Equity fund. They will be presented at the Joint Committee meeting on 20 June 2024 and will be discussed at this Pension Fund Committee's meeting on 13 September 2024.

## 6. NORTH YORKSHIRE'S INVESTMENTS WITH BORDER TO COAST

- 6.1. To date, the Fund has invested in the following funds with Border to Coast.

<b>Border to Coast fund</b>	<b>Investment Inception</b>	<b>31 March 2024 £ million</b>
UK Equities	April 2019	180
Global Equities	October 2019	1,373
Private Credit	October 2019	149
Infrastructure	July 2019	308
Climate Opportunities	April 2022	41
UK Opportunities	-	0
Listed Alternatives	February 2022	266
Multi Asset Credit	November 2021	241
Corporate Bonds	March 2020	338
Index Linked Bonds	October 2020	577
<b>Total</b>		<b>3,473</b>

- 6.2. £14 million was invested in Corporate Bonds in the quarter, and the net cashflow of private market calls and distributions was £59 million invested with Border to Coast. 75% of the Fund's investments are now managed by Border to Coast.
- 6.3. Cumulative private markets commitments of £680 million to Infrastructure, £405 million to Private Credit, £260 million to Climate Opportunities and £50 million to UK Opportunities have been made. This is £1.395 billion in total. Annual commitments can be made to Border to Coast for these asset classes in the first quarter of each calendar year, with the exceptions of Climate Opportunities and UK Opportunities which operate on longer cycles.
- 6.4. As expected with these private markets asset classes, it will take many years for these commitments to be called by Border to Coast and for the money to be fully invested.

## **7. FUTURE INVESTMENTS WITH BORDER TO COAST**

- 7.1. Private markets commitments to Border to Coast will next be considered in the first quarter of 2025 for Infrastructure and Private Credit.
- 7.2. Border to Coast is working towards launching a UK Property fund in late 2024. It will primarily be invested in segregated properties, with an allocation of approximately 15% in specialised property funds such as for residential property. The initial phase of investments will involve only three of the partner funds in Border to Coast, being those funds transferring directly held commercial property to Border to Coast. The second phase, potentially involving North Yorkshire, is expected to commence in the first half of 2025. A workshop will be arranged for the Committee, to review the UK Property fund in advance of a decision of whether to invest.
- 7.3. Partner funds have been working with Border to Coast on the possible launch of a Sustainable Bonds fund. Sustainable Bonds are used to finance a range of green and social projects and activities. The launch of a fund in 2025 has been discussed. A workshop will be arranged for the Committee once the proposals have been sufficiently developed.
- 7.4. Discussions with partner funds on listed impact equities are ongoing. There will need to be sufficient interest for this to lead to fruitful discussions with Border to Coast.
- 7.5. All of the Fund's investments with Border to Coast produce income in one form or another, for examples coupon payments on bonds. Currently all of this income is reinvested. Income distribution options are being explored, which may be needed to meet the Fund's cashflow requirements as the membership profile matures.

## **8. CONCLUSION**

- 8.1. The launch of new funds continues broadly in line with expectations. Border to Coast has been focussing resources on developing a small number at any one time, rather than try to do too much too quickly. Understandably, the pace of fund launches has slowed, with Border to Coast now managing approximately £40 billion of partner fund assets.
- 8.2. DLUHC has published its response to the consultation. This was largely in line with the proposals in the consultation itself. It is possible that statutory guidance will be published before the General Election but there is a material risk that this will not happen. Compliance with the Government's plans, when they are published, are not expected to require significant changes in the approach North Yorkshire has been taking to investment pooling.

## **9. RECOMMENDATIONS**

- 9.1. Members are recommended to note the report.

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15 May 2024