

NORTH YORKSHIRE COUNCIL

PENSION FUND COMMITTEE

13 SEPTEMBER 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.
- 1.2. To update the Committee on Government pronouncements on fund consolidation, domestic investment, and other aspects of the LGPS.
- 1.3. To present annual reviews of the Global Equity Alpha fund and the UK Equity Alpha fund, in which North Yorkshire Pension Fund invests.

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) consulted with selected interested parties on updated guidance. The response on this consultation was never published.
- 2.8 Another consultation was published by the Government 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. New guidance was expected to be published before the summer recess, but this did not happen.

- 2.11 On 28 March 2024 the Government 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 those aimed at addressing some of the aims detailed in 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 pooling arrangements, this Pension Fund Committee remains responsible for setting the funding strategy and the high-level investment strategy, including 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 RECENT DEVELOPMENTS

- 3.1 On 15 May 2024, DLUHC (Department for Levelling Up Housing and Communities, which was renamed MHCLG between September 2021 and July 2024) wrote to LGPS administering authorities asking them to comment on the themes of economies of scale, efficiency and governance. The Minister's letter was circulated to Pension Fund Committee members and is attached as **Appendix 1**.
- 3.2 Although there has been a change of Government, it was considered appropriate to reply. The letter to the new Minister is attached as **Appendix 2**. It was approved by the Fund's Treasurer and the Chair of this Committee.
- 3.3 This reply is broadly consistent with the replies from the other partner funds in Border to Coast, and with a reply sent by the Joint Committee.
- 3.4 On 17 July 2024 the King's Speech included a few issues which might be relevant, although there was no specific mention of the LGPS.
- The National Wealth Bill will be aimed at delivering growth and a greener economy. A £7.4 billion capital injection was mentioned. Other than a reference to the UK Infrastructure Bank there was no information on where the funding would come from.
 - The Pension Schemes Bill will "enable consolidation and more productive investment of funds". The focus is to be on private pensions market consolidation.

- 3.5 On 20 July 2024 the Government issued a press release “[big bang on growth](#)” on boosting investment and savings and tackling waste in the pensions system. The key points were:
- action will be taken to unleash the £360 billion of LGPS investments and make it an engine for UK growth
 - pooling would enable investment in a wider range of UK assets and further mandating of pooling will be considered if insufficient progress is made by March 2025 (which is the same deadline posed by the previous Government)
 - further consolidation would be explored, with the focus seemingly on funds rather than pools
 - fees and costs would also be explored
- 3.6 On 7 August 2024 the Chancellor met with representatives of the major Canadian public pension funds. In a statement ahead of the meeting the Chancellor said “the size of Canadian pension schemes means they can invest in far more productive assets like vital infrastructure than ours do. I want British schemes to learn lessons from the Canadian model and fire up the UK economy”.
- 3.7 Hymans Robertson has published a useful policy briefing note, [The Canadian Model](#). It’s interesting to note that that the arrangements were established with certain principles including alignment of interest and collaboration between stakeholders without political interference.
- 3.8 However, there is an ongoing heated debate in Canada between the Government and the funds about the low level of domestic investment, which is amongst the smallest domestic allocations in the world. The Financial Times article [Canada’s pension spat exposes global institutional capital fight](#) illustrates this.
- 3.9 On 16 August 2024 the [Terms of Reference for Phase 1 of the Government’s Pensions Review](#) was released. This will focus on defined contribution schemes and the LGPS, and findings are expected to be reported this year, ahead of the introduction of the Pension Schemes Bill. The aims are aligned with the Government’s pronouncements above.
- 3.10 The second phase of the review is expected to start later this year, with a focus on improving pension outcomes alongside investment, including assessing retirement adequacy. It is not known whether the LGPS will be in scope.

4. GOVERNANCE – JOINT COMMITTEE

- 4.1 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.

- 4.2 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. Councillor George Jabbour from North Yorkshire was appointed as the Chair at the last meeting, on 20 June 2024. Councillor Jabbour has therefore vacated the position of Vice Chair, so a replacement will be determined at the meeting in September. Also, on the Joint Committee, but in a non-voting capacity, are two scheme member representatives nominated by the eleven partner fund Pension Boards.
- 4.3 The Joint Committee arrangements are hosted by South Yorkshire. The most recent meeting was on 20 June 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 Pension Fund Committee members separately.

5. GOVERNANCE – THE COMPANY

5.1. 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)
- Richard Hawkins, Non-Executive Director (NED)
- John Holtby, Non-Executive Director (NED)
- David Coupe, Non-Executive Director (NED)

5.2. 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).

5.3. North Yorkshire Council, as the administering authority of the North Yorkshire Pension Fund, is the named shareholder in Border to Coast, owning a 1/11th share of the company.

6. WORKING GROUPS AND OTHER ARRANGEMENTS

6.1. 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.

- 6.2. 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.
- 6.3. The first batch of reports is comprised of annual reviews of the Global Equity Alpha fund and the UK Equity Alpha fund, in which North Yorkshire invests, as well as the Emerging Markets Equity fund. They were presented at the Joint Committee meeting on 20 June 2024. Border to Coast's report to the Joint Committee is attached as **Appendix 3**. This report is restricted by virtue of paragraph 3 of Part 1 of Schedule A of the Local Government Act 1972.
- 6.4. On 12 September 2024 there is a workshop where Border to Coast will present on Global Equity Alpha, exploring the annual review and other issues relating to this fund.
- 6.5. The issues raised in the UK Equity Alpha fund have a relatively low significance, as the allocation to this fund is small (4% of the total value of the Fund) and because the Committee has already decided to remove this allocation from the strategy, pending a suitable alternative being identified. This is expected to happen as part of the next review of the investment strategy.
- 6.6. Reviews for the Alternatives programme and Listed Alternatives are underway.

7. NORTH YORKSHIRE'S INVESTMENTS WITH BORDER TO COAST

- 7.1. To date, the Fund has invested approximately 76% of the total value of the Fund with Border to Coast, as detailed below.

Border to Coast fund	Investment Inception	31 June 2024 £ million
UK Equities	April 2019	187
Global Equities	October 2019	1,377
Private Credit	October 2019	154
Infrastructure	July 2019	330
Climate Opportunities	April 2022	54
UK Opportunities	-	0
Listed Alternatives	February 2022	271
Multi Asset Credit	November 2021	243
Corporate Bonds	March 2020	338
Index Linked Bonds	October 2020	553
Total		3,507

- 7.2. 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.

- 7.3. 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.

8. FUTURE INVESTMENTS WITH BORDER TO COAST

- 8.1. Private markets commitments to Border to Coast will next be considered in the first quarter of 2025 for Infrastructure and Private Credit.
- 8.2. 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.
- 8.3. In November 2022 the Committee reviewed Border to Coast's proposals on UK Property. The conclusion was that Members were comfortable with the arrangements, and subject to officers and advisers completing the remaining due diligence steps, investment could go ahead. However, a formal decision was not made at that time. Due diligence work will be completed in the coming weeks. A report with a recommendation will be brought to the Committee meeting on 22 November 2024.
- 8.4. 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.
- 8.5. Discussions with partner funds on listed impact equities have, at this stage, failed to generate interest. However, discussions with Border to Coast are ongoing, on whether this could be considered at a later date, if not in the short term. This asset class will also be noted as part of the investment strategy review, due to commence shortly.
- 8.6. 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.

9. CONCLUSION

- 9.1. 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.

- 9.2. The change in Government is expected to impact on the timing and content of updated guidance on pooling investments. However, at this stage, compliance with the requirements is not expected to lead to material changes to the approach North Yorkshire has been taking with Border to Coast.

10. RECOMMENDATIONS

- 10.1. Members are recommended to note the report.

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