



Private Markets – Frequently Asked Questions

July 2019

General

1. Are your LGPS Partner Funds 100% invested in Border to Coast yet?

We anticipate that by the end of 2019, all our Partner Funds will have some element of their assets invested via Border to Coast, but the transition to all assets being invested is likely to take some time.

Specifically with relation to Private Markets, a significant majority of our Partner Funds have now entered into their individual Scottish Limited Partnership (SLP), through which Private Markets investments managed via Border to Coast will be held. Each Partner Fund will commit to the asset class offerings that are available, as appropriate for their investment strategy. It is anticipated that Partner Funds will make all new Private Market commitments aligned with our capabilities via Border to Coast.

Planning is currently underway as to if and how legacy assets might be transitioned in the future. The transfer of legacy assets into the respective funds' SLP would be on a phased basis and in any event will not commence prior to 2020. Border to Coast and Partner Funds may want to engage with the managers of these legacy investments to ensure a smooth transfer in due course, but this remains at the discretion of our Partner Funds.

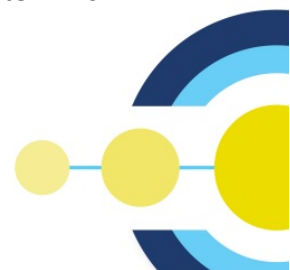
This will be reviewed on a case by case basis and managers should therefore maintain their existing arrangements with Partner Funds accordingly in respect to legacy investments.

2. How do you work with other pools?

We are keen to continue to work with other pools where there are opportunities for mutually beneficial outcomes. This collaboration could include the sharing of due diligence or participating in club deals. Managers may also wish to consider offering LGPS aggregated fee rates.

3. Could you expand on the governance of your investment decision making?

The Border to Coast team maintains a pipeline of investment opportunities. The team meets on a weekly basis to determine which opportunities progress through the three stages of due diligence – initial summary, outline due diligence, and full due diligence – with peer review throughout this process. Opportunities that progress to investment recommendation are reviewed by the Alternatives Investment Strategy Committee before being presented for approval. The CIO will approve investments up to a certain size with supplementary approval by the CEO for larger investments and consultation with the Board where appropriate. This all operates within a governance framework agreed by the Border to Coast Board.



Structure

4. Will you consider separately managed accounts (SMA) for specific needs?

These may be considered in the future. It is anticipated that we will initially build portfolios around commingled fund and co-investment activity. However, if we determine that we have a gap in our portfolio construction that can't be satisfied by the above we would consider SMAs.

5. Do you consider levered funds?

Leverage is a consideration in our detailed due diligence process. Investments that utilise fund-level leverage will not be excluded but we would want to understand the rationale for the use of leverage and the impact on the risk and return profile of the underlying investment. This would also be considered in conjunction with the return target of each portfolio. It should also be noted that at the time of writing, we have a cautious stance on the use of leverage given the stage of the economic and investment cycle.

6. Are you looking at both open-ended and closed-ended funds?

Yes.

7. Do you have a greater appetite for longer term funds?

We have no preference for fund duration and each investment opportunity will be assessed on its merits although some strategies are more suited to long term funds than others.

8. Would you consider special situation funds?

We will consider these types of investments subject to our detailed due diligence process and a suitable portfolio fit.

9. Do you have any underlying asset classes where you can't invest?

Our Private Equity, Infrastructure and Private Credit offerings are focused on the traditional definition of these asset classes by design. We are conscious that there are a large number of attractive alternative strategies that may not neatly fit into these traditional definitions. We are currently considering, in conjunction with our Partner Funds, offering a Diversified Alternatives strategy to cover these types of investments. In the event that we decide not to offer this separate strategy, we will consider alternative ways to provide exposure to these investments.

10. Within your geographical reach, are there any areas you will exclude?

It is anticipated that the geographic exposure for the Private Markets offerings will be predominantly focused on developed economies. We will also invest in emerging economies where we consider the risk/return profile to be appropriate. There are certain countries where we will not invest, such as those subject to sanctions or where we consider the risks of operating in those countries to be too high.

11. How are you thinking about the J-curve over the next few years?

We are always mindful of the J-curve impact in all investments and will look to mitigate this where possible. However, this is not a specific requirement as we build the new portfolios. Many of the Partner Funds have existing portfolios which help to mitigate the J-curve impact.

12. Have you thought about currency risk?

We consider currency exposure as part of the due diligence process for individual investments as well as overall portfolio construction. Some funds have different currency sleeves and varying degrees of hedging and we will take this into consideration as we seek to mitigate currency risks where this is considered appropriate.

It is possible that, in the future, we may consider additional approaches to hedging.

13. Are the portfolios' expected returns a minimum return figure?

We have indicated the return target for each of the portfolios. This is not a minimum return target and we will consider investments with lower expected returns from the point of view of risk reduction and diversification as part of the overall portfolio construction.

14. Are the portfolios' expected returns net of currency impact?

All target returns are net of all costs in Sterling terms.

Engagement with Managers

15. Are you going to share your scoring metrics for private markets as you did with your external managers search?

Our approach in private markets will not follow a formal procurement process and hence will not use a scoring approach. We will consider the available opportunities, filter these to an appropriate short-list, and then undertake detailed due diligence on the opportunities we wish to pursue.

We ask that Managers send details of their best ideas, aligned to the guidance we have provided, to our shared mailbox – investmentideas@bordertocoast.org.uk and we will follow up with you if we wish to continue discussions. We politely ask you to note that we will not be able to respond to every e-mail or request for meeting.

16. Will managers engage with Border to Coast only or will they engage with Partner Funds as well?

Border to Coast will be the investment decision maker and as such, ongoing reporting and day-to-day fund activity will be with the team, not the underlying Partner Funds. There may be occasions where it is considered beneficial to have a broader meeting which may include representatives from all/some of the Partner Funds and we may seek support in these.

17. How do you expect "knowledge transfer" to work?

We are seeking to build long-term partnerships with managers and knowledge transfer is at the heart of these relationships. This could include sharing of due diligence and industry research on an ongoing basis, participation in deals, and provision of masterclasses, training and placements or secondments for junior personnel.

18. Are you willing to hear about managers' future products/strategies?

Yes. Our investment approach is to build suitably diversified portfolios over a typical 3-year series. It would be very useful to have visibility on managers' future fundraising to aid the development of our pipeline.

19. Would you prefer specific investment ideas or an overall summary of what the partner can do?

We would prefer specific and targeted investment ideas.

20. What is the best format to send documents to your private markets e-mail?

Once you have selected your best ideas, please send a full presentation to the shared mailbox with a covering e-mail which outlines why this investment is considered to be suitable for Border to Coast given the guidance we have provided. Please refrain from sending legal agreements, subscription documents and PPM's at this stage. Please also note our response to Q13 regarding how we will follow up on investment opportunities.

21. Do you plan to hold more investor days going forward?

We will hold more Manager Days as we value the engagement with the industry and the opportunity to share our ideas and approach. For example, we expect to hold a meeting if there is an update on Diversified Alternatives or Liquid Alternatives.

22. Are you restricting the number of general partners you have in a portfolio?

We are not specifically restricting the number of GP's, but we are aiming to build relatively concentrated portfolios. We have certain restrictions regarding the maximum size of a single investment and exposure to a single GP in any Series¹.

23. How open are you to new managers you don't already have relationships with?

We are keen to work with the best managers, whether existing or new relationships.

24. Are you flexible on the jurisdictions managers operate in?

We are more familiar with some and have a preference for onshore, rather than offshore, where it is available. Our primary objective though is to use the most appropriate structure for the opportunity.

25. Would you invest in first time funds or only established managers?

We have and will continue to invest in new as well as established managers. A key part of our due diligence process is a granular analysis of track records, which may include track records developed elsewhere. The lack of a track record does not preclude us from making an investment but the hurdle for inclusion in the portfolio is higher given the increased risk.

Co-Investments

26. For the private market strategy how long will your co-investment process take?

Border to Coast has made a commitment to be a good co-investor. This means that we will communicate, on a timely basis, as to whether the opportunity is of interest and if we consider that we have suitable available resources to perform appropriate due diligence in the timescales required. We would then seek to complete the investment provided that the due diligence process was satisfactorily completed and that we are comfortable with any changes in terms. We do not have a set timescale for the process as it will depend on the investment under review and the availability and quality of due diligence documentation.

¹ For Private Equity and Infrastructure, 10% and 20% respectively and for Private Credit, 15% and 25%.

27. Are co-investments across all private markets?

We are keen to pursue co-investments across all asset classes over the long term although we anticipate more opportunities in Private Credit and Infrastructure in the shorter term as we build our internal resources.

28. Will co-investments only be in funds?

It is likely that we will have a mix of co-investment funds and individual co-investments. Individual co-investments that are in LP structures are easier for us to administer at the outset.

29. What is your minimum co-investment size?

We do not have a specific minimum investment size, but we do have a cap on individual co-investments and co-investments as a whole in each portfolio Series. We will consider whether the size of the co-investment is sufficient to warrant allocating resources to conducting detailed due diligence.

30. Do you have a UK bias for co-investments in infrastructure?

No specific bias to the UK but issues such as political, regulatory and currency risk will be taken into account when determining a suitable geographic split across the portfolio.

31. Do you have a preferred structure for infrastructure co-investments?

We do not have a preferred structure for co-investments across our Private Markets investments. However, the structure will need to be suitable for the underlying investment and be one that we are permitted to hold. This tends to point towards a limited partnership structure at the current time.

ESG

32. How are you evaluating managers' ESG processes?

Working with our Head of Responsible Investment, we have created an ESG questionnaire which we will issue to Managers during the early stages of any due diligence process. We will consider the responses and identify any areas where further engagement may be required. Our overall approach to sustainability can be found [here](#).

33. Do you plan on making your ESG criteria available publicly?

Our high-level principles are already publicly available via our RI policy on our website. We will consider making available further more detailed information regarding our approach in due course.

34. Will you consider impact investing within your portfolios?

It is not a specific investment requirement within the due diligence process. Investments that are considered to be suitable for inclusion in portfolios and provide a positive societal impact are of course a bonus.

Private Equity

35. Have you considered that being technology and healthcare-focussed and your minimum investment commitment may clash and cause you to miss out on some opportunities?

We consider the technology and healthcare sectors to be attractive at the current time, but they will form part of an appropriately diversified global portfolio in each asset class. We will balance the size of investor commitments, our desire for relatively concentrated portfolios, the risk/return profile of the investment, and not wanting to necessarily be the largest or dominant investor in any single fund to appropriately size our commitments. Although we haven't set a minimum fund size, funds over £100m are more likely to meet these criteria. We are comfortable that we should still be able to access the vast majority of institutional quality investment opportunities.

36. Clarity on fund size in Private Equity regarding Venture Capital?

Whilst we recognise there are some smaller funds where we may not be able to participate, we believe the indicative £100m minimum fund size is mostly appropriate for institutional quality strategies.

37. Why have you allocated less capital to private equity than infrastructure?

It is important to note that Border to Coast is not responsible for strategic asset allocation decisions. Our Partner Funds determine their commitments to each of the asset classes based on their strategic asset allocation, any tactical tilt to this allocation, and capital already invested in each asset class.

38. Are you excluding Large Cap and Small Cap from Private Equity?

We anticipate investing across the market cap spectrum although we have indicated mid-market as a particular focus for us at the current time.

Infrastructure

39. Will you consider listed infrastructure?

The Infrastructure portfolio, and other Private Markets portfolios, can potentially include up to 10% of commitments (based on expected commitments over a Series) in listed securities. This is intended to be used on a tactical rather than strategic basis and we do not anticipate that this will feature significantly at the current time.

Private Credit

40. Have you considered any overlapping areas with fixed income and private credit?

We will keep this under review but essentially, private market strategies will form part of the alternatives offering and strategies that are liquid and traded on an open exchange will be considered to be fixed income. We will seek to avoid overlapping strategies where possible.

41. Will you invest in distressed assets within Private Credit?

We will consider stressed and distressed assets within Private Credit. However, it is important to note the distinction between distressed assets as a result of a pricing dislocation that is expected to correct, which will form part of our Private Credit portfolio, and distressed assets as part of a "loan to own" strategy, which will typically be included within Private Equity.

Research consultant

42. What is the process around appointing your external consultant?

We will launch an OJEU-compliant procurement process for an external provider of investment and operational due diligence support in Summer 2019 with an appointment expected in late 2019/early 2020. This provider will act as an additional resource to the internal team to assist in filtering the universe to a suitable number of opportunities for more detailed due diligence. They will not provide a buy-list and the detailed due diligence and final investment decision will be made by the Border to Coast team.

43. Is your consultant across all private markets or a separate consultant for each private market sleeve?

Our requirement for the appointment in Summer 2019 will be for a consultant that has demonstrable experience of a wide range of Private Markets asset classes including Private Equity, Infrastructure, and Private Credit as well as asset classes considered as part of a Diversified Alternatives offering. As the Border to Coast programme grows over the medium term, we may evolve to have multiple consultants with particular expertise in certain asset classes.

Note: these questions are based on those raised by the asset management industry at our Private Markets Manager Day on 2nd July 2019. All responses are correct on a best endeavours basis at the time of writing.