



## **BORDER TO COAST PENSIONS PARTNERSHIP LIMITED**

### **ASSESSMENT OF VALUE REPORT (March 2022)**

#### **INTRODUCTION**

An Authorised Fund Manager ('AFM') must conduct, at least annually, an assessment of value for each unit class in each of the funds that it manages. The Financial Conduct Authority (FCA) rules prescribe a minimum set of components which need to be considered to determine if 'value' is being provided to investors, and that costs and charges are justified in this context.

This report is the Assessment of Value for the Border to Coast Authorised Contractual Scheme ("the Scheme") for the year ended 31<sup>st</sup> March 2022. As at that date the Scheme was comprised of nine sub-funds as below:

<b>Fund</b>	<b>Launched</b>	<b>FUM £bn</b>	<b>Management</b>
Border to Coast UK Listed Equity Fund	02/07/2018	4.18	Internal
Border to Coast Overseas Developed Markets Equity Fund	09/07/2018	5.17	Internal
Border to Coast Emerging Markets Equity Fund	02/10/2018	0.98	Hybrid
Border to Coast UK Listed Equity Alpha Fund	19/11/2018	1.44	External
Border to Coast Global Equity Alpha Fund	30/09/2019	6.47	External
Border to Coast Sterling Investment Grade Credit Fund	06/02/2020	3.25	External
Border to Coast Sterling Index-Linked Bond Fund	08/10/2020	2.06	Internal
Border to Coast Listed Alternatives Fund	31/01/2022	1.50	Internal
Border to Coast Multi Asset-Credit Fund	14/10/2021	3.50	Hybrid

The following describes how the Company, as AFM of the sub-funds, approaches the assessment and the range of factors considered by the Company's board of directors for each component. This annual exercise is performed in addition to and in conjunction with the regular fund reviews which the Company undertakes in line with its product governance obligations.

#### **COMPONENTS OF THE ASSESSMENT OF VALUE**

COLL 6.6.20 sets out minimum criteria on which the assessment must be based which is:

1. Quality of Service
2. Performance
3. AFM Costs and Charges
4. Economies of Scale
5. Comparable Market Rates
6. Comparable Services
7. Classes of Units



## ASSESSMENT

The following summarises the approach (in italics) and the conclusions reached by the Company's board of directors.

### 1. Quality of Service

*Consideration is given to the range, nature, extent and quality of the services provided directly to investors or those services undertaken on their behalf, and whether investors have benefitted from these services. This review covers the services performed by the Company and its material outsourced suppliers, which includes ongoing assessments of:*

- *The quality of both internal and external investment managers, including their processes (trading, risk management, compliance, technology, research and operational capabilities) and the integration of Environmental, Social & Governance (ESG) into the investment process.*
- *The quality of the administrative and investor services provided to the sub-funds by Northern Trust, a global custodian bank.*
- *The quality of the Custodian and the Depositary, also performed by Northern Trust.*

*Investors receive clear and timely communications and the level of information provided to each assists them in making informed decisions regarding their investments. In addition to ongoing relationship management support from the Company, investors receive the following documentation:*

- *Weekly valuations*
- *Monthly sub-fund fact sheets*
- *Quarterly investment reports and stewardship and voting reports*
- *Annual review of each sub-fund shared with Joint Committee*
- *Bi-annual LGPS code of cost transparency templates*
- *Interim and Annual Report and Accounts*
- *Annual Responsible Investment and Voting reports*
- *Annual service assurance report - AAF 01/20*



The range, nature, extent and quality of the services provided to investors has been assessed, following feedback from investors. Due to our investors having a longer-term focus, each sub-fund (with at least a year's trading history) was reviewed and where appropriate, actions have been taken as a result of the review. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment and the service delivered has been timely and of an appropriate quality.

## **2. Performance**

*Consideration is given to whether sub-fund performance is within a reasonable range of outcomes relative to its objective, policy and strategy when measured over appropriate time periods. The time periods assessed are any specific time period expressed in the investment objective or policy of the sub-fund, and performance over 3 and 5 years, or since inception if there is not a full period of performance data. Performance is also considered in the context of the relevant benchmark and target and whether the sub-fund operated in accordance with its respective risk limits and investment restrictions.*

*If the performance is not considered to be satisfactory then the following may be taken into account where relevant:*

- *Explanations for any underperformance provided by the external and/or internal investment managers as part of the Company's fund performance governance model.*
- *Any appropriate steps (such as consideration of changing the investment objective, policy, strategy or investment personnel) that have been taken or are intended to be made and aim to improve sub-fund performance.*
- *The Company may also consider changing the Investment Manager or closing the sub-fund where no other viable options are available.*

*Further information on the specific performance of individual sub-funds is included in the Investment Manager Report section of the Scheme's Report & Accounts covering the period relevant to this report, which has been made available to investors and prospective investors in the Scheme.*

*Performance of the Listed Alternatives Fund and Multi-Asset Credit Fund have been excluded from the assessment as these sub-funds were launched during the year and the Board considers this to be an insufficient timescale to form an assessment given the longer-term objective of this sub-fund.*



Our assessment is made within the context that only four of our sub-funds have reached their performance evaluation period (which ranges from 3 to 5 years). This is of particular importance given the context of our investor base, the Local Government Pension Scheme and their focus on risk adjusted, long term performance net of fees.

Two specific actions have been taken to address findings from our assessment:

- A rebalancing of the externally managed UK Listed Equity Alpha portfolio was undertaken, with completion in May 2022. This rebalancing sought to introduce a greater exposure to large-cap quality stocks and to ensure the Fund continues to deliver for Partner Funds across performance and risk and maintains its responsible investment approach.
- Reflecting the growing importance of China as a key hub for innovation and growth, in April 2021 we completed the restructuring of the Emerging Markets Equity Fund, appointing two external China specialist managers to create our first hybrid proposition, with our internal team continuing to manage the emerging markets ex-China segment of the portfolio. With larger, locally based, teams covering the Chinese market, these specialist managers are better placed to maximise risk-adjusted returns for our Partner Funds and engage on and drive ESG standards on our behalf.

Each sub-fund's overall performance after charges, relative to its investment objectives, policy and strategy was determined to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance is included in the Investment Manager's Report for each sub-fund respectively included in the Scheme's Report and Accounts for the year ended 31<sup>st</sup> March 2022.

### **3. AFM Costs and Charges**

*Consideration is given to whether fees are reasonable taking into account the underlying costs for the services provided and the performance objectives set for the sub-funds.*

*The underlying fees, costs and expenses are expressly listed in the relevant section of the Prospectus for each sub-fund, but in summary cover the following payments:*

- *External Investment Manager (where applicable)*
- *Depositary*
- *Custodian*
- *Transfer agent*
- *Scheme auditor*



*All costs paid out of the sub-fund assets are detailed within the Scheme's audited annual report and accounts.*

*All charges to the sub-funds are paid out of custody accounts which are overseen by the Depositary. Expenses must be detailed and allowable under the prospectus to be permissible. The prospectus has been drafted in line with advice from our external legal Counsel (Eversheds LLP and following approval from the Depositary. Any changes are submitted to the FCA and may require both their and investor approval.*

*Border to Coast is a signatory to the LGPS cost transparency code. Investors receive twice yearly transparency templates detailing all the underlying costs associated with their investments.*

*Due to the unique nature of our customer base the costs paid out of the sub-funds' assets do not include the Company's own costs, which are agreed annually with Partner Funds and charged directly to the Partner Funds. However, to ensure comparability with the wider market, these costs have been taken into account in the Board's assessment of value.*

The fees charged to the sub-funds and the costs invoiced to the Partner Funds are considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for each sub-fund.

#### **4. Economies of Scale**

*Consideration is given to whether investors have benefitted from the Company's ability to negotiate favourable pricing with service providers as a result of the scale that pooling brings.*

The Company was established as one of eight national pools to help drive a range of benefits. As a non-profit making firm, all favourable pricing benefits obtained due to our scale and use of open procurements are directly transferred to our investors. Thanks to our scale, we are able to deliver value to our Partner Funds across a range of measures, not only costs. These range from increased investment in fundamental research and risk analysis; a broader and more robust investment team; increased access to investment opportunities; a strengthened governance framework; more influence on behalf of our Partner Funds on responsible investment and other policy matters; cost savings through joint legal advice with Partner Funds and the delivery of cost savings across the pool. The Board concluded that all investors have benefitted to various degrees from these economies of scale.



## **5. Comparable Market Rates**

*Consideration is given to whether the fees paid for each service provided to each sub-fund and the fees charged directly to each investor are reasonable compared to fees for similar services in the market.*

*Given the Company's public ownership, it must adhere to Public Sector Procurement rules, including public contracting rules for significant competitive tenders of services. For lower value procurements, the Company's own procurement policy defines the process by which all services must be obtained, which includes assessing value for money against both quality of service and price and obtaining comparable market quotes where appropriate.*

*The Company is subject to an annual budgetary approval cycle which ensures any material change to costs is subject to investor scrutiny and ultimate approval.*

*As the Company now has sufficient trading history to be at a stable operating base it has begun to participate in a benchmarking review of its costs, and this will provide independent comparator data in future years.*

The fees paid for each of the services provided to the Scheme in addition to the internal costs charged directly to investors were competitive relative to those services provided to similar funds within the UK regulated funds market.

## **6. Comparable Services**

The AFM only manages this Scheme and as there are no other comparable services offered to investors, this assessment is not required.

## **7. Classes of units**

As no investor is paying a different charge to access different classes of units (including income and accumulation units), this assessment criteria is not applicable.