Future Funding Model – OOG Briefing Paper

Introduction

The current funding model, as shaped by the Partner Funds prior to inception of Border to Coast, was designed to support funding both regulatory capital (as required by the FCA) and revenue and liquidity requirements throughout the initial start-up period (expected to be c. five years). It aimed to address the following requirements over this initial build period:

- Provide the required resources to support the build of a long-term resilient and sustainable operating model, that was sufficiently flexible so as to be able to adapt to meet Partner Funds' changing needs.
- Provide an initial degree of detailed oversight of the organisation as a corporate entity by Partner Funds whilst trust and operational requirements could be refined on the basis of experience.
- Build a financing model that was based on the principal of supporting a "not for profit" operating model.
- Ensure the firm did not experience liquidity or capital issues during the build period.
- Charge Partner Funds based on their long term strategic asset allocation (i.e. not their actual AUM) to ensure a fairer allocation of costs during the initial asset transition period, given that not all assets could transition at the same time.

Border to Coast understands that Partner Funds always anticipated that the model would need to adapt and move to something more commonly seen in the wider industry, where charges are based on actual assets under management. With this in mind, discussions have been ongoing for the last couple of years on when and what needs to change to implement a new model. The intention was for this change to be implemented from April 2025 but at the request of Partner Funds, Border to Coast has looked to accelerate this to be ready from April 2024. Although this is a challenging delivery date, with many matters still to conclude, with Board and Partner Funds support and agreement we expect to be on track to meet this date.

A joint project group has been established and Border to Coast has worked with Partner Funds officers to propose a new approach and outline model for review and approval by both the Board and Partner Funds, which we hope to attain during the coming quarter. This briefing note is intended to provide an outline of the key changes proposed and the approvals required to implement.

Why Change?

Basing Partner Funds' costs on actual AUM would make benchmarking easier.

Greater transparency, if we can provide easier monitoring of the total costs of investing in each sub-fund rather than on only Border to Coast's corporate element of the costs, will support a focus on value rather than cost.

A change could support longer-term planning and flexibility to deal with in-year events than is currently the case. However, Partner Funds have requested that the Company continues to prepare an annual budget, to enable oversight and management of any potential cost creep through this change.

The change could enable the build-up of reserves, whilst continuing to aim to curtail any additional tax drag.

What is proposed to change?

The costs will not change in total but rather the way they are allocated between the Partner Funds.

At a basic level, it is proposed that Border to Coast will stop invoicing Partner Funds a share of the annual budget based on their long-term strategic asset allocation. Instead, an Annual Management Charge (AMC) will be applied to the investment funds which will be allocated in proportion to each Partner Fund's share of the total AUM of the fund. The AMC will reflect the actual costs incurred by Border to Coast.

Without putting other protections in place, switching to this funding methodology reduces certainty of cost recovery for Border to Coast (e.g. if the AUM significantly falls), which could result in Border to Coast requiring a shareholder capital injection to meet its regulatory capital requirements. In order to mitigate this risk, we are proposing to make the AMC variable (an 'up to' rate) coupled with amending the shareholder agreement such that excess costs above the maximum AMC rate would be split equitably amongst all shareholders current thinking is that this is probably 1/11th but work is still on going on this. This mechanism also supports future optionality and shareholder none compliance with the pooling guiding principles, as currently being discussed by Partner Funds. This avoids the need to hold extra capital and provides a means of managing liquidity requirements.

What is not proposed to change.

- Whilst we are reviewing and streamlining the current sign off process the Strategic Plan, including the Annual Budget will continue to be approved by shareholders.
- Governance and Project costs will continue to be charged to Shareholders on a 1/11th basis
- The charging structure for Private Markets (including Global Real Estate), which already charge on an committed assets basis.

Changes required to make this effective

Fund documentation (the Prospectus):

For each sub-fund, the ability to charge an Annual Management Charge (reflecting Border to Coast's actual costs) but subject to a capped %.

Border to Coast are currently taking advice on the appropriate governance route for these changes (either an EGM vote or via investor notice). Either way Partner Funds invested will have ample opportunity to comment.

Shareholder Agreement:

We will need to make a few minor changes to the Shareholders' Agreement to enable this change to be effected. The current wording under Section 4.1 states "Each Shareholder shall pay an annual operating charge to BCPP in the amount specified in the Annual Budget in relation to services provided by BCPP as specified in the Annual Budget".

However, because the AMC will be charged to the funds, it will be the investors in each fund who will now be paying these costs i.e. not the shareholders and therefore the above wording needs to be changed to remove these costs from the Annual Operator Charge.

In addition, to protect Border to Coast from the risk of not being able to fully recover its costs (i.e. if the actual costs are greater than the AMC capped amount), the agreement will be amended to make each shareholder liable to make an equal contribution towards the shortfall.

We also are looking to discuss with Shareholders proposals to address two other associated issues relating to the company financing where current drafting is either not reflective of actual process or where changes could lead toa more efficient process - Clause 4.2.1 suggests that a Regulatory Capital Statement is issued annually and approved by all shareholders', which we do not do in practice and doesn't align with the 75% shareholder requirement for the Strategic Plan and Clause 5.1.3 to remove the requirement to get shareholder written approval not to make distributions by way of cash dividends, so as to remove the administration of this process each year.

Pension Cost Charge Agreement

We propose to remove the cost sharing principles from this Agreement – no other changes required. The Cost Sharing Principles to be included as part of the Annual Budget process to give clarity on how Partner Funds pay for their investment related activities and their future liabilities on pensions shortfall – as is the case now.

Partner Fund Timeline

September 23	Partner Fund socialisation of proposed changes to Shareholder Agreement, Prospectus and Pension Cost Recharge Agreement
November 23	Following Border to Coast Board approval, Partner Fund approval of revisions to Shareholder Agreement, Pension Cost Recharge Agreement.
January 24	ACS EGM and vote / Notification of Changes to Prospectus