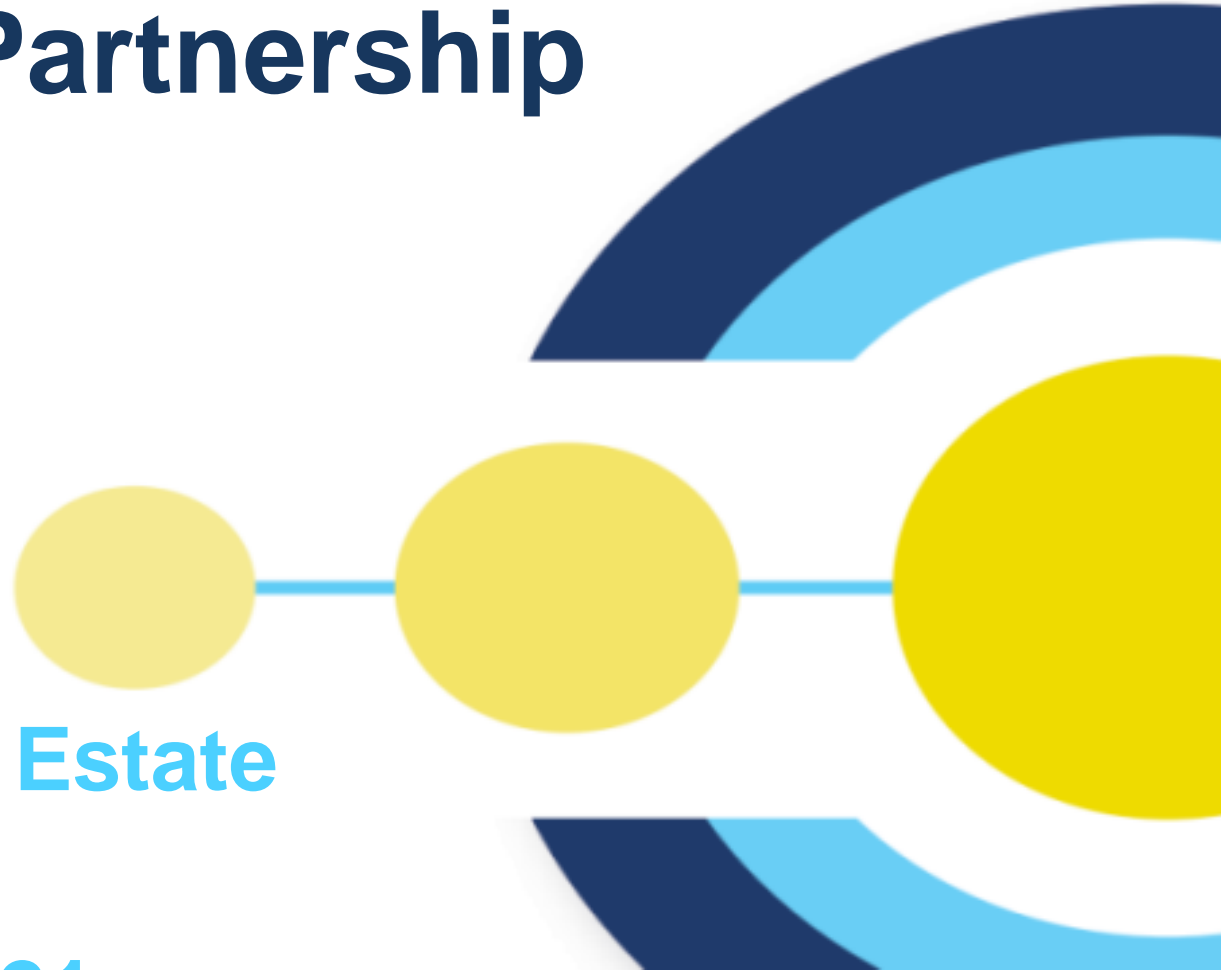


Border to Coast Pensions Partnership

Teesside Real Estate
Update

8th October 2021



Introduction

Agenda

- Update on UK proposition
- Update on Global proposition
- Business case for Teesside
- Timeline
- Conclusion



UK Proposition

Main UK Fund

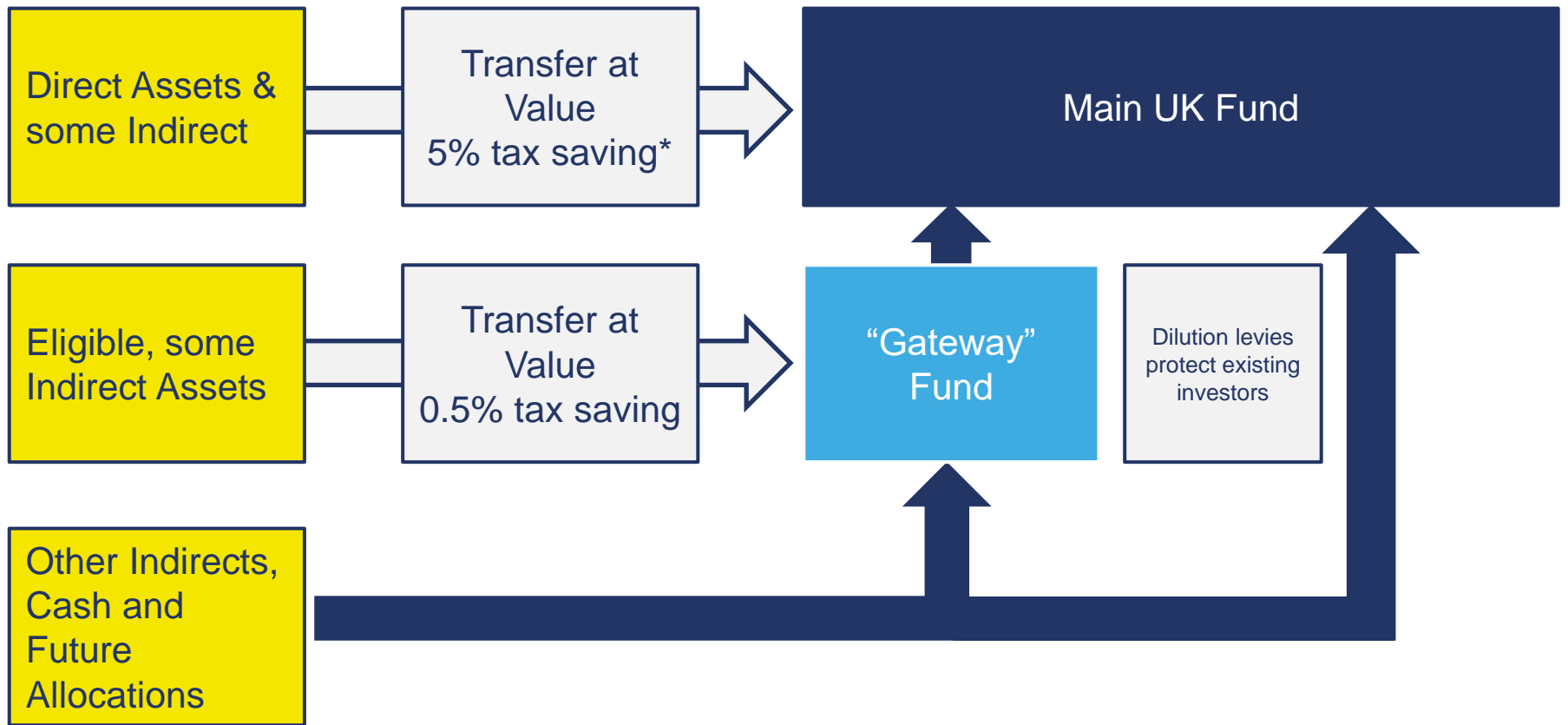
- Mostly physical real estate investments
- Minimal operating cash
- Long-term investment approach
- Targeting CPI +4% over the long term
- Regulated, unitised structure
- Sub fund within CoACS structure

Gateway Fund

- Transition vehicle
- Fund of funds investing in balanced UK funds + passive REITs for liquidity
- Designed to reflect UK market
- Targeting MSCI Quarterly Universe
- Sub fund alongside Main Fund

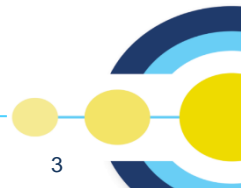
Two funds: one long-term solution, one transition vehicle

Transition of Assets



Fair queuing system needs agreement

* Tax position of Scottish and Welsh Assets TBC



Global Proposition

Two funds: one lower risk, one higher

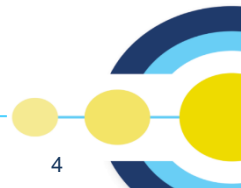
Lower Risk Fund

- Investing in established, 'open-ended' funds
- Global universe: predominantly N America, Asia and Europe (UK not excl.)
- Seeking the best, lower risk strategies
- Targeting returns of 6% net of costs
- More liquidity dictated by underlying funds

Higher Risk Fund

- Investing in 'closed-ended' funds and potentially co-investing directly
- Global universe: predominantly N America, Asia and Europe (UK not excl.)
- Seeking the best value add and opportunistic strategies
- Targeting returns of 10%, net of costs
- Less liquidity due to the underlying funds

Partner Funds may choose to allocate to either fund or both, in whichever proportions suit their strategic asset allocation and objectives



New Proposal: What do you get from Dual Strategy?

Access

- Scale gives access to larger funds
- Scale brings access to co-investment opportunities
- No change to previous single fund strategy

Expertise

- Global Fund Consultant (costs shared)
- Border to Coast capability
- No change to previous single fund strategy

Cost effective

- Shared costs
- Greater potential for fee savings
- Fee savings from co-investment opportunities
- Higher operating cost (marginal) - BUT

Flexibility

- Partner Funds can set their own risk, return and liquidity profiles

Management Costs

UK Fund Full participation	Base long-term cost 0.11%	Ext manager (15yr av.) 0.07%	Max. cost indirects 0.10%
UK Fund No direct assets	Base long-term cost 0.18%	External Manager N/A	Max. cost indirects 0.10%
Global Fund	Base long-term cost 0.11%		

Set up costs per Partner Fund	Phase 1 £75k	Phases 2 & 3 £500k
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Directly invested Partner Funds:

- Lower transition costs but smaller savings
- Quicker payback, smaller long-term savings

Indirectly invested Partner Funds:

- Higher transition costs but bigger savings
- Slower payback, bigger long-term savings



Teesside: Holding Assumptions

Fund Size	£4.08bn	UK	Allocation: 10% Target: £408m Actual: £295m Difference: -£113m	Global	Allocation: 0% Target: £0m Actual: £23m Difference: +£23m
Holdings expected to transition to the UK Main Fund		Holdings expected to transition to the UK Gateway Fund		UK Holdings not expected to transition	
1. Teesside Direct Property Portfolio		1. Hermes PUT 2. Royal London Property Fund 3. Threadneedle PUT		1. LAMIT Local Auth. Property Fund 2. LGIM UK PUT	

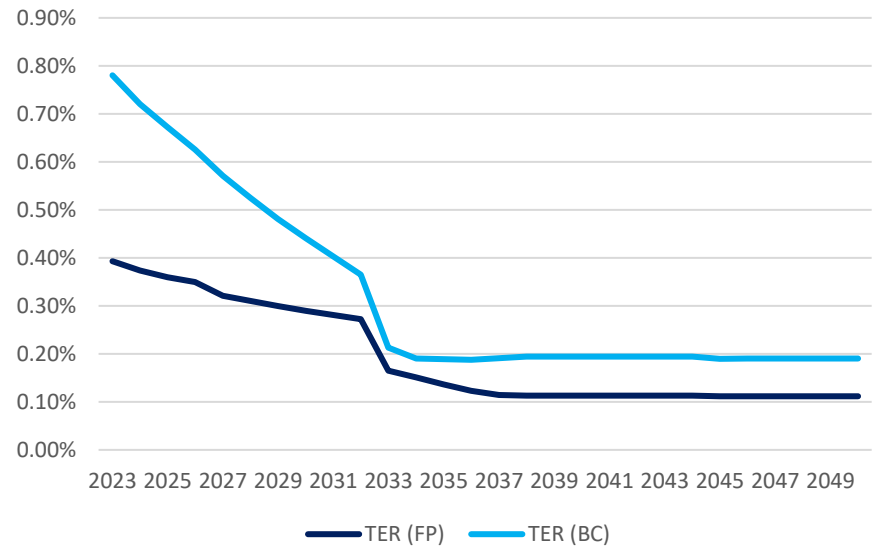
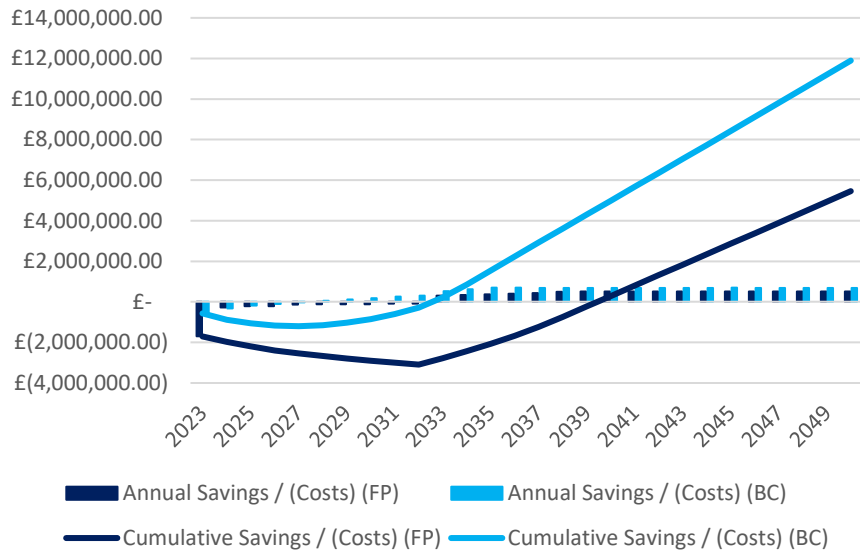
Other key assumptions here:

- Teesside participate and transfer all their direct property holdings into the new UK Main Fund and invest their underweight cash
- The Funds identified for the UK Gateway Fund are eligible and pass due diligence checks



Teesside: Economic Business Case

Teesside PF J Curve & TER chart below



Key factors:

- Current direct investments are cost efficient
- Large underweight position takes time to transition through UK Gateway Fund

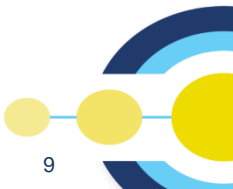
Major cost items:

- £1.2m cost of property DD (26 x £45k)
- £1.7m net cost of subscription to the Main Fund
- £420k project cost (£80k allocated to Global Fund)
- Peak annual saving of £510k (FP) and £680k (BC) after transition

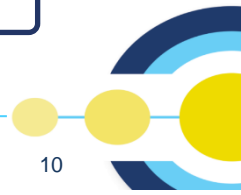
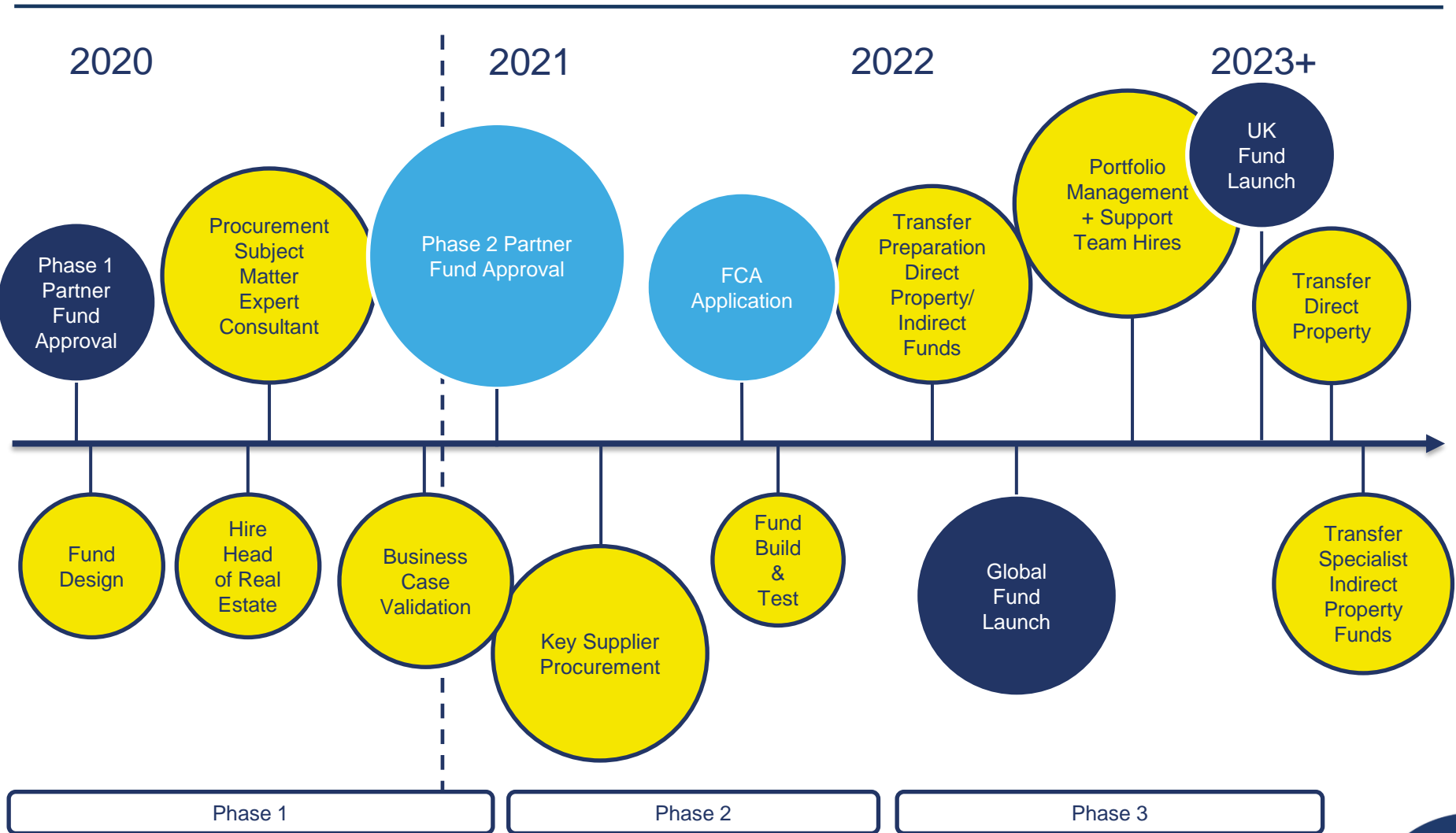
Additional benefits of pooling

Beyond the economic benefits of pooling...

- Access to larger, more dominant assets with durable income characteristics
- Access to Global Real Estate markets
- Investment strategy appropriate for long-term investing
- ESG factors imbedded into investment strategy
- Flexible, unitised structure
- Dedicated, professional investment management team



High-Level Timeline



Conclusion

Ambition to create an institutional quality, low-cost Real Estate capability for our Partner Funds and launch UK and Global Funds

- Phase one complete. Viability for both UK and Global propositions tested and independently validated
- ‘Soft’ benefits not quantified
 - Full market access to dominant, durable assets
 - Strategic alignment
 - Institutional investment management
- Business case supports pooling of all assets

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