



NOTICE OF MEETING

BERKSHIRE PENSION FUND PANEL

will meet on

MONDAY, 6TH JUNE, 2016

at

4.00 pm

In

COUNCIL CHAMBER - TOWN HALL,

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS LENTON (CHAIRMAN), HILL, COLLINS, RANKIN AND HILTON (VICE-CHAIRMAN). SUBSTITUTES ALEXANDER, DUDLEY, KELLAWAY AND 2 VACANCIES.

ADVISORY MEMBERS: CLLR DENNIS (READING), CLLR STANTON, CLLR WORRALL, CLLR BROOKER, CLLR LAW, PATRICK FULLER AND ASIA ALLISON

Karen Shepherd - Democratic Services Manager
Issued: 26/05/2016

Members of the Press and Public are welcome to attend Part I of this meeting.

The agenda is available on the Council's web site at www.rbwm.gov.uk or contact the Panel Administrator

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AGENDA

PART I

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
1.	<u>APOLOGIES</u> To receive any apologies for absence.	
2.	<u>DECLARATIONS OF INTEREST</u> To receive any declarations of interest.	7 - 8
3.	<u>MINUTES</u> To approve the Part I minutes of the meeting held on 11 th April 2016.	9 - 14
4.	<u>COMPOSITION OF THE BERKSHIRE PENSION FUND ADVISORY PANEL</u> To consider the report.	15 - 20
5.	<u>LGPS INVESTMENT POOLING - LOCAL PENSIONS PARTNERSHIP</u> To consider the report.	21 - 30
6.	<u>LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC</u> To consider passing the following resolution:- "That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on item 9 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act"	

PART II

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
7.	<u>MINUTES</u> To approve the Part II minutes of the meeting held on 11 th April 2016. <i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i>	31 - 32
8.	<u>ACTION TRACKING</u> To note the report. <i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i>	33 - 34

MEMBERS' GUIDANCE NOTE

DECLARING INTERESTS IN MEETINGS

DISCLOSABLE PECUNIARY INTERESTS (DPIs)

DPIs include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any license to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where
 - a) that body has a piece of business or land in the area of the relevant authority, and
 - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

PREJUDICIAL INTERESTS

This is an interest which a reasonable fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs your ability to judge the public interest. That is, your decision making is influenced by your interest that you are not able to impartially consider only relevant issues.

DECLARING INTERESTS

If you have not disclosed your interest in the register, you **must make** the declaration of interest at the beginning of the meeting, or as soon as you are aware that you have a DPI or Prejudicial Interest. If you have already disclosed the interest in your Register of Interests you are still required to disclose this in the meeting if it relates to the matter being discussed. A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in discussion or vote at a meeting.** The term 'discussion' has been taken to mean a discussion by the members of the committee or other body determining the issue. You should notify Democratic Services before the meeting of your intention to speak. In order to avoid any accusations of taking part in the discussion or vote, you must move to the public area, having made your representations.

If you have any queries then you should obtain advice from the Legal or Democratic Services Officer before participating in the meeting.

If the interest declared has not been entered on to your Register of Interests, you must notify the Monitoring Officer in writing within the next 28 days following the meeting.

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Agenda Item 3

BERKSHIRE PENSION FUND PANEL

MONDAY, 11 APRIL 2016

PRESENT: Councillors Lenton (Chairman), Hill (RBWM), Hilton (RBWM), Worrall (Bracknell Forest), Law (West Berks) and Nicholls (Unison).

INDEPENDENT ADVISER TO THE PANEL: Mr Dhingra

OFFICERS: Mr Greenwood, Mr Taylor, Mr Pardo, Mr Boyton and Mr Cook.

APOLOGIES

Apologies for absence were received by Cllr Brooker, Cllr Stanton and Mr Bunn (Interim Head of Finance RBWM).

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

The Part I minutes of the meetings held on 18th January 2016 and 9th February 2016 were approved as a true and correct records.

Cllr Law asked if there was an update on the pension administration software extension and was informed that this was currently being discussed with procurement. The Panel were informed that that the contract was for 5 years with a rolling 6 months notice of termination thereafter and it is currently in this rolling notice of termination period.

CO-HABITING PARTNERS

The Pension Administration Manager introduced the report that requested payment of a cohabiting partner's pension of £16,924.90 per annum in respect of a scheme member who died unexpectedly during November 2015.

The Panel were informed that the deceased had not nominated his cohabiting partner and whilst the partner had been able to provide documents evidencing they both lived at the same address the documents did not provide sufficient evidence to satisfy that they were financially dependent / financially interdependent on each other as they had kept separate bank accounts. The partner had however suffered a stroke and lengthy recovery during which time she was dependent on the deceased financially.

The Panel were asked to approve the payment of a survivor's pension on sight of a sworn Affidavit made by the deceased's partner.

In response to questions the Panel were informed that a couple needed to be living continuously together for two years to be seen as cohabiting.

Resolved Unanimously: that the Panel approve the payment of a survivor's pension on sight of a sworn Affidavit made by the deceased's partner.

INVESTMENTS - ASSET CLASS LIMITS

The Pension Fund Manager introduced the report that recommended that limits be set for the maximum proportion of then Fund that could be invested in any one asset class, fund or issue.

The Panel were informed that the Fund would be required to publish an Investment Strategy Statement later in 2016 that included asset class limits; these were set out in section 1.3 of the report as proposed by the IWG.

Resolved Unanimously: That Panel agree the investment limits as set out in Table 1 of the report.

INVESTMENT GOVERNANCE - DELEGATED POWERS

The Pension Fund Manager informed the Panel that at its meeting on 9th February 2016 the Panel had agreed the delegations as set out in the report. At the meeting it was suggested that a limit of £20 million be set for IWG investment.

Following the meeting concern was raised that this limit was too low and it was suggested that a limit of £50 million or 3% of the Fund's net assets as published in the latest Financial Statements would be more appropriate. It was noted that the Council's Constitution would be amended restoring the clear delegations previously agreed.

Cllr Hilton reported that deliberations at the IWG had resulted in the revised recommended limit of £50 million as it was felt that the previous recommendation had been too low.

Resolved Unanimously: That the Panel:

- i. Agrees the delegated powers as set out in Annex 1**
- ii. The Council's Constitution be amended to incorporate these delegated powers.**

PENSION FUND PANEL WORKING GROUPS

The Pension Fund Manager informed the Panel that they had previously approved the terms of reference for the Panels three working groups. During a recent audit of the Funds administration it had been raised that these terms of reference did not specify quorums. The Panel were therefore asked to approve the updated terms of reference for its working groups.

Cllr Worrall questioned the wording of the membership of the Investment Working Group and its quorum. It was agreed to change the wording of the terms of reference to:

Quorum: Four members of whom at least two shall be members of the Pension Fund Panel and include the Chairman or the Vice Chairman of the Panel.

It was also agreed to remove 'or' from 'The Investment Working Group will consist of the Chairman and/or Vice-Chairman' in paragraph 2 of the terms of reference.

The Panel also considered the Terms of reference for the Liability Management Working Group and the Employer Covenant Assessment Working Group.

Resolved Unanimously: That the Panel approve the quorums of the three working groups including the following additional amendments to the IWG:

- **Quorum: Four members of whom at least two shall be members of the Pension Fund Panel and include the Chairman or the Vice Chairman of the Panel.**
- **Removal of 'or' from 'The Investment Working Group will consist of the Chairman and/or Vice-Chairman' in paragraph 2 of the terms of reference.**

COMPOSITION OF THE BERKSHIRE PENSION FUND ADVISORY PANEL

The Pension Fund Manager introduced the report that recommended the revision of the Berkshire Pension Fund Advisory Panel as set out in section 2.6. There was a need to update the Council's Constitution to reflect the proposals as the Thames Valley Probation Trust was no longer an employer within the Fund and needed to be removed from the Advisory Panel.

The report also recommended that there be a representative from an Academy, to represent all academies within the Fund, due to their increased numbers within the Fund. Cllr Law recommended that officers could contact each authorities School Forums to help find an Academy representative.

Cllr Worrall questioned if there should be terms of office added and was informed by the Pension Fund Manager that he was thinking of adding that if the representative did not turn up after two consecutive meetings they may be removed. Cllr Hilton mentioned that the Crime and Disorder O&S Panel have co-opted members sign up that they have to attend 2 out of the 4 per meetings per annum or their place would be reviewed.

The Panel requested that a term of office be introduced that ran alongside the RBWM election cycle. Advisory Panel members would be required to attend at least two meetings per annum otherwise the Panel could ask them to step down. It was agreed that revised wording would be reported back at the next meeting.

INVESTMENT IN UK INFRASTRUCTURE

The Pension Fund Manager introduced the report that recommended that the Fund invest into mid-market UK Infrastructure projects.

The Panel were informed that Government were looking at the Local Government Pension Schemes investing in UK Infrastructure. There had been discussions about the creation of a National LGPS Infrastructure Pool.

The Investment Working Group were concerned that investment in large infrastructure projects would not produce returns that were required by the Fund and that Local Government officials may not have the expertise to do thorough due diligence. It was therefore proposed that the Fund should look to invest in smaller Infrastructure projects where better returns may be achieved.

It was recommended that the Fund commit £50 million for investment into an Infrastructure managed account with Ancala Partners who are a specialist Infrastructure Investment firm.

Cllr Hilton mentioned that Ancala Partners had excellent contacts so they could find off-market projects that were not subject to competitive bids and thus offer higher potential returns.

Cllr Worrall questioned if the pressure to invest in infrastructure was coming from national or local politicians and was informed by the Chairman that it was being driven at a national level .

Cllr Hilton asked if there was a perception from Government that a percentage of the Funds assets should be invested in infrastructure. The Panel were informed that on average LGPS invested about 1% in infrastructure whilst RBWM invested 4%; the Government had looked abroad and seen increased infrastructure investment and asked why not here?.

The Funds advisor mentioned that the question was should we invest in Ancala Partners and in his opinion it was a good investment.

Resolved Unanimously: That the Panel approves the commitment of £50 million to an account managed by Ancala Partners LLP to invest in mid-sized UK Infrastructure Projects.

GLOBAL EQUITY MANDATES

The Investment Manager introduced the report that recommended that the investment in the IPM RAFI Enhanced Index Fund be redeemed and that the proceeds be invested equally between RWC and Kames Capital.

The Panel were informed that the investment had been rated 'Amber' for the past three years to see if there would be any improvement. As this improvement had not happened the IWG had recommended re-allocation of the funds to invest in strategies that were meeting the Fund's income targets.

Cllr Worrall questioned section 3.1 Key Implications of the report and its value. The Panel were informed that this was a standard section on all RBWM reports to set stretched targets for report outcomes.

It was noted that investments were expected to achieve at least 4% returns per annum and that in renegotiating the re-allocation of the funds managers had negotiated low fee rates from both parties that offered extremely good value.

Councillors Hilton and Law questioned why the Panel were being asked to take action now when the investment had been 'Amber' for three years. The Panel was informed that it had been rated 'Amber' in 2013 when there had been an interim Pension Fund Manager. When the Pension Fund Manager returned to work the strategy had picked up a few times but after a number of meetings with them to discuss the poor performance it had been decided to leave the mandate in place to see if performance would improve. They had been close to being reported 'Red' on a few occasions but they never quite reached that level of poor performance.

Approved Unanimously: That the Panel:

- **confirms the redemption of the Fund's holding in the IPM RAFI Enhanced Index Fund**
- **agrees that the proceeds of that redemption be proceeds invested equally between RWC and Kames Capital in their dividend growth strategies.**

GLOBAL CUSTODY

The Investment Manager introduced the report that sought approval for the continuation of the Pension Fund's contract with JP Morgan Security Services beyond the initial five year contract until the situation regarding Pooling was clear.

The Funds advisor advised that this was a sensible approach and in response to questions the Panel were informed that the contract was for five years with a 6 month notice of termination rolling provision.

Approved Unanimously: That the Panel confirms that the custody contract with JP Morgan continues until a custody review is undertaken once investment pooling arrangements with other Local Government Pension Scheme funds have been finalised.

STEWARDSHIP REPORT

The Deputy Pension Fund Manager introduced the report that deals with the stewardship of the Pension Fund for the period 1 December 2015 to 31 January 2016.

The Panel were informed that on agenda page 68, section 2.2 showed Scheme Employers with the additional text showing new employers since last report. Future reports will show employers who have left since last reporting. It was noted that Woodley Age Concern had gone into receivership and officers were working with the receiver to claim any outstanding payments and the cessation deficit payment.

Cllr Law mentioned it was not easy to find the overall investment performance and was informed that this could be found at the bottom line of table 1.3 (Market Returns) and that this would be added to an appropriate chart to highlight performance.

Cllr Worrall asked what the Funds exposure was for Woodley Age Concern and was informed that they had about 12-15 members with the only outstanding payment being for this year. There was one employer because of their age would be eligible for pension payments due to the redundancy.

With regards to notices of unsatisfactory performance it was noted that since RBWM had started using I-Connect the transfer of data was much better. The Panel were informed that Reading Borough Council were now also looking to use the system.

Resolved Unanimously: That the Panel note:

- **The investment performance and asset allocation of the Fund.**
- **All areas of governance and administration as reported.**
- **All key performance indicators.**

BERKSHIRE PENSION FUND BUSINESS PLAN

The Pension Fund Manager introduced the report that presented the Pension Fund Business Plan for 2016/17 and medium term strategy. The Panel were informed that it was similar to last years report with the addition of what we did against what we said we would do.

Resolved unanimously: That the Panel approves the Business Plan and Medium Term Strategy and authorises Officers to publish it on the Fund's web-site.

LGPS INVESTMENT POOLING UPDATE

The Pension Fund Manager introduced the urgent report that provided an update on the progress made since the last Panel meeting on investment pooling within the LGPS and the need to reply to Marcus Jones MP, the Minister for Local Government, by 11th April 2016.

The Panel were informed that at its meeting on 9th February 2016 they noted the administering authority's response to the Department for Communities and Local Government's directive that LGPS funds are to pool their investments. Ministers were not satisfied with the response given as they felt the Fund was not committing to pooling.

Cllr Lenton, as Chair of the Pension Fund Panel, received a letter from Marcus Jones MP requesting the Royal Borough as the administering authority commit to join a specific pool and to confirm in writing by 11 April 2016 which pool it was committed to joining.

Cllr Lenton had responded to this request and confirmed that we would be looking to join the Local Pensions Partnership (LPFA/Lancashire pool) upon confirmation that this pool had been

given authorisation. The decision to join the Local Pensions Partnership had been made because:

- It already had in place in an Authorised Contractual Scheme which was the governments preferred vehicle for pooling investments.
- The LPP is the only pool with a governance structure that was fit for purpose as most of the nascent pools had suggested a joint committee which was felt not to be acceptable by the Department.
- The LPP was the only pool which has indicated that it was willing to accept our investment strategy.
- The LPP was a holding company and we would have an option of becoming a shareholder in it.

The Chairman reported that there would be further updates to the Panel at future meetings.

LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC

RESOLVED UNANIMOUSLY: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on following items on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act.

The meeting, which began at 4.00 pm, finished at 5.40 pm

CHAIRMAN.....

DATE.....

Report for: ACTION



Contains Confidential or Exempt Information	<i>NO - Part I</i>
Title	Composition of the Berkshire Pension Fund Advisory Panel
Responsible Officer(s)	Nick Greenwood, Pension Fund Manager
Contact officer, job title and phone number	Nick Greenwood Pension Fund Manager 016258 796701
Member reporting	Cllr J Lenton
For Consideration By	Berkshire Pension Fund and Pension Fund Advisory Panels
Date to be Considered	6 June 2016
Implementation Date if Not Called In	N/A
Affected Wards	None

REPORT SUMMARY

1. This report notes that Thames Valley Probation Trust is no longer an employer within the Fund and hence can not have representation on the Berkshire Pension Fund Advisory Panel.
2. It reviews the number of members within the largest non-local authority employers and recommend that the composition of the Advisory Panel is amended as set out in Section 2.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. Having an Advisory Panel membership that is representative of the Fund's membership shows good governance of the pension Fund.	Immediate

1. DETAILS OF RECOMMENDATIONS

RECOMMENDATION: That Panel:

i. recommends to Council that the composition of the Berkshire Pension Fund Advisory Panel be amended to that shown in Section 2.6 of this report.

2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 RBWM's constitution states the Advisory Panel membership shall comprise of:

- The Pension Fund Panel (5 administering authority Members)
- 5 representatives from the unitary authorities (1 each)
- 2 employer representatives namely
 - University of West London
 - Thames Valley Probation Trust
- 2 employee representatives namely
 - UNISON
 - GMB
- A Pensioner Member and an Active Member representative

2.2 Thames Valley Probation Trust is no longer an employing body in the Fund (having transferred to Greater Manchester Pension Fund) and is consequently not eligible for representation on the Pension Fund Advisory Panel.

2.3 The table below shows (as at 31 December 2015) the number of members (Actives, Deferreds, Pensioners and Dependents) of the top 10 non-unitary authority employers:

EMPLOYER	Active	Deferred	Pensioner	Dependent		% of Total
Thames Valley University	28	334	315	30	707	1.15
Bracknell & Wokingham College	177	195	119	6	497	0.81
Newbury College	134	230	72	7	443	0.72
Berks College of Agriculture	152	208	61	5	426	0.69
Berkshire Fire & Rescue	169	92	75	4	340	0.55
Mary Hare Grammar School	179	104	45	5	333	0.54
Reading Buses	20	29	152	45	246	0.40
Optalis	107	68	32	0	207	0.34
Legacy Leisure	187	16	0	0	203	0.33
Maiden Erlegh School	134	55	6	0	195	0.32

Academies	3,337	1,179	299	16	4,831	7.87
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Table 1 – Principal non-local authority employers within the Berkshire Pension Fund

2.4 There are over 240 non-unitary authority employers in the Fund but as can be seen from the table above the majority have fewer than 200 members (out of a total of over 63,000). On the other hand we now have 89 Academies as employers in the Fund as the table above shows they represent almost one eighth of the Fund's membership.

2.5 The Chairman and Pension Fund Manager recommend that an Advisory Panel seat is offered to one of the largest employers identified in Table 1 and to a representative from the Academies.

2.6 Officers recommend that the composition of the Pension Fund Advisory Panel is amended in RBWM's Constitution as follows:

The Berkshire Pension Fund Advisory Panel membership shall comprise of:

- The Pension Fund Panel (5 administering authority Members)
- 5 representatives from the unitary authorities (1 each)
- 3 employer representatives namely
 - University of West London
 - An employer with a minimum of 200 members within the Fund
 - A representative from an Academy (to represent all academies within the Fund).
- 2 employee representatives namely
 - UNISON
 - GMB
- A Pensioner Member and an Active Member representative

A term of office for Members of the Advisory Panel should be set to run alongside the election cycle of the administering authority with Members being required to attend a minimum of 2 meetings per annum. Members of the Advisory Panel who fail to attend the minimum meeting requirement will be asked by the Berkshire Pension Fund Panel to step down and for a replacement to be appointed.

Option	Comments
Agree the composition of the Pension Fund Advisory Panel as in 2.6 above	Recommended by the Chairman and Pension Fund Manager
Request RBWM to amend its Constitution to reflect the new composition of the Pension Fund Advisory Panel	Recommended by the Chairman and Pension Fund Manager
Do not agree the recommended changes in the composition of the	Not recommended the composition does not reflect the membership of the Fund

Option	Comments
Advisory Panel	
Do not request RBWM to amend its Constitution to reflect the new composition of the Pension Fund Advisory Panel	Not recommended – the composition of the Pension Fund Advisory Panel must be in the Borough's Constitution.

3. KEY IMPLICATIONS

- 3.1 The proposed changes will ensure that the major employers in the Fund will be represented at Advisory Panel meetings.

4. FINANCIAL DETAILS

Financial impact on the budget

- 4.1 None

5. LEGAL IMPLICATIONS

- 5.1 The Borough's Constitution must state who is eligible for membership of the Berkshire Pension Fund Advisory Panel

6. VALUE FOR MONEY

- 6.1 N/A

7. SUSTAINABILITY IMPACT APPRAISAL

- 7.1 N/A

8. RISK MANAGEMENT

- 8.1 None

9. LINKS TO STRATEGIC OBJECTIVES

- 9.1 None

10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

- 10.1 None

11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

- 11.1 None

12. PROPERTY AND ASSETS

12.1 None

13. ANY OTHER IMPLICATIONS

13.1 None

14. CONSULTATION

14.1 N/A

15. TIMETABLE FOR IMPLEMENTATION

15.1 Immediate

16. APPENDICES

None

17. BACKGROUND INFORMATION

N/A

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Report for: ACTION



Contains Confidential or Exempt Information	NO - Part I
Title	LGPS Investment Pooling – Local Pensions Partnership
Responsible Officer(s)	Nick Greenwood, Pension Fund Manager
Contact officer, job title and phone number	Nick Greenwood Pension Fund Manager 01628 796701
Member reporting	Cllr John Lenton
For Consideration By	Berkshire Pension Fund and Pension Fund Advisory Panels
Date to be Considered	6 June 2016
Implementation Date if Not Called In	N/A
Affected Wards	All

REPORT SUMMARY

1. This report updates Members on the progress the Pension Fund has made on Pooling and seeks approval to issue a letter of intent to Local Pensions Partnership and to begin legal review of documents required to become a shareholder in Local Pensions Partnership.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. Pooling of investments by LGPS funds is a government requirement.	1 April 2018
2. Becoming a shareholder in Local Pensions Partnership will provide other benefits including resilience for both the administration and finance teams, enhanced risk management and potential for cost savings across the whole pensions function.	31 March 2019

1. DETAILS OF RECOMMENDATIONS

RECOMMENDATION: That Panel:

- i. agrees that the Berkshire Pension Fund should pool its assets with Local Pensions Partnership**
- ii. agrees that Berkshire Pension Fund should become a shareholder in Local Pensions Partnership Limited**
- iii. authorise Officers to issue the letter of intent at Annex 1**
- iv. authorise Officers to begin a legal review of the documents required for the Berkshire Pension Fund to become a shareholder in Local Pensions Partnership Limited**

2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Initiated in 2014 as a joint venture between the London Pension Fund Authority (“LPFA”) and the Lancashire County Council (“LCC”), to jointly manage their pension funds, the Local Pensions Partnership Limited (“LPP”) began operations on 11th April 2016. LPP goes much further than just pooling investments and offers a full pensions service (investment, administration and risk management) to its shareholders. This is very similar in concept to the approach that we were taking in the discussions with Buckinghamshire and Oxfordshire (“Project BOB”).

The investment model used by LPP is the favoured option of both the Treasury and the Department for Communities and Local Government (per their consultation document – 25 November 2015); indeed most nascent investment pools have been advised to review their proposals and bring them in-line with the LPP investment model.

Investment Pooling

The Government published their proposals for the mandatory pooling of LGPS investment assets on 25 November 2015. The proposal document suggested that the preferred legal structure for pooling would be an “authorised contractual scheme” (“ACS”). An ACS is a legal wrapper enabling the pooling of listed securities (private funds will have to be pooled via other structures such as limited partnerships). An ACS requires a Financial Conduct Authority (“FCA”) authorised manager and staff employed in senior roles by the manager will also require FCA authorisation.

Under LPP’s proposals for investment pooling the Berkshire Pension Fund assets will remain the property of the Berkshire Pension Fund – this is no different to the Fund investing in an existing pooled fund (such as all our Emerging Market Funds). LPP is not authorised by the FCA to hold client assets and as such may not take ownership of assets nor receive deposits of cash. Assets will all be held by a global custodian and beneficial title of our units in any LPP pooled fund will remain with Berkshire.

LPP's investments will be managed by LPP Investments Limited an FCA authorised investment management firm in 3 “sleeves” – pooled liquid investments, pooled illiquid investments and legacy investments of the shareholders.

Pooled liquid investments will cover our investments in listed global equities (including Emerging Markets) and mandates will either be managed by suitably qualified LPP staff or, as is Berkshire's current practice, by external managers. The only key difference will be that LPP will be responsible for appointing managers. The same will apply for listed bonds (including gilts, corporate bonds and convertible bonds – developed and developing markets). The practice of the Pool taking responsibility for the selection and appointment of managers is mandated by Government and is common across all the proposed pools.

Future commitments to private funds (equity, debt, infrastructure etc.) will be via LPP who will be responsible for selecting funds and negotiating fees etc. so long as the selected funds meet Berkshire's investment strategy. Berkshire will be able to bring to the attention of LPP funds in which it would like to invest although the final investment decision will have to be taken by LPP bearing in mind Berkshire's investment strategy and desire to invest.

Existing “legacy” investments (that is those which are illiquid or transfer to a pool would be uneconomic) would be managed by LPP solely for the benefit of the beneficial owner (i.e. no seepage of returns to other LPP shareholders).

At all times Berkshire Pension Fund assets will remain the property of Berkshire; Berkshire will remain responsible for setting investment strategy and asset allocation but LPP will be responsible for appointing fund managers

Investment Governance

LPP Investments is an FCA authorised firm and senior staff are also FCA authorised. This means that both the company and staff have been deemed to be fit and proper but more importantly processes are in place to ensure the safe management of clients' assets. This is exactly the same as for all our UK based external managers. All assets and cash belonging to Berkshire will, as is the current practice, be held by a global custodian or in a designated Berkshire Pension Fund bank account.

Should Berkshire become a shareholder in LPP then RBWM staff currently working on the Pension Fund will transfer to LPP. A senior investment ex-RBWM Officer will sit on the Investment Committee of LPP Investments and will be in a position to ensure that Berkshire's voice is heard. That same Officer will be the primary point of contact between LPP and RBWM on investment matters (and possibly also on other pension matters). RBWM staff involved with investments will need to gain FCA authorisation.

Local Pensions Partnership Governance

LPP is a holding company with 2 subsidiaries – LPP Pensions Administration Company and LPP Investments Ltd. The holding company has a board consisting of a non-executive Chair, 4 non-executives (of whom 2 are appointed by LPFA and LCC) and 3 executives (Chief Executive, Chief Finance and Chief Risk Officers). On becoming a shareholder in LPP Berkshire will have the right to appoint a non-executive director (Officer or Elected Member or any other suitably qualified person). Non-executive directors are entitled to a fee but it would be Berkshire's option whether its non-executive director would receive all or part of that fee. The administration company board has a non-executive Chair (who also sits on the LPP Board), another non-executive director and the Managing Director of the Administration and the HR Director of LPP. Similarly LPP Investment's Board has a non-executive Chair, another non-executive director and 3 executives (the Chief Risk Officer and the Managing Director of LPP Investments who is also a Co-CIO and the other Co-Chief Investment Officer). Non-executive directors for LPP Investments are drawn from the independent non-executive directors of LPP. Executive Directors of LPP Investments are appointed by the LPP Board.

Since LPP Investments is held accountable by the Board of LPP Limited there are shareholder control mechanisms in place should they be required. This includes, for example, the requirement for each executive director to be reappointed on an annual basis by shareholders at an Annual General Meeting. Arguably this strengthens Berkshire's governance hand as we would be in a position to directly influence the composition of the senior staff within LPP Investments.

Advantages of becoming an LPP shareholder

Governance – the governance structure of LPP and its subsidiaries has been approved both by the Financial Conduct Authority and the Department for Communities and Local Government. All other nascent pools have yet to receive approval, indeed Marcus Jones (Local Government Minister) publicly stated that most of the pools' proposed structures were not legal.

LPP have offered Berkshire a non-executive directorship which gives Berkshire a voice in the high level management of LPP. This "voice" is disproportional to the assets Berkshire will have invested via the pool. Whilst other pools will doubtless have similar arrangements the Berkshire voice is in danger of being drowned out as it will only be one of many round the table.

Security – LPP Investments are fully authorised by the Financial Conduct Authority but is not permitted to hold client assets or cash. This means that the status quo of assets being held by JP Morgan our global custodian and cash in designated bank accounts will **not** change. Overtime there may be the opportunity to garner additional cost savings by the clients of LPP Investments jointly pro-curing an alternative custodian.

Sovereignty Agreement – Should Berkshire become a shareholder in LPP then a sovereignty agreement between RBWM and LPP will be signed. This will reserve certain matters (most pertinent being investment strategy and asset allocation) to RBWM.

“Whole Fund Approach” – LPP’s approach is for full integration of shareholders’ pensions teams and covers not just investment (the sole focus of the other pools) but also pensions administration and risk management. If Berkshire becomes a shareholder in LPP our existing administration team will transfer to LPP but will remain in Maidenhead (over time natural turnover will reduce the team size and as staff leave they are likely to be replaced by staff in Preston – a lower cost centre). The administration teams will share best practice and will over time generate cost savings and efficiencies.

Staff – RBWM staff will be TUPE’d to LPP or LPP Investments depending on their roles ensuring that there is continuity of service to stakeholders as well as retention of Berkshire “knowledge”.

Reputation – LPP gives Berkshire the opportunity to work with two well respected LGPS funds who, like us, have a reputation for excellence and innovation.

Ambition – LPP have a genuine desire to get this right for shareholders and clients and ultimately for all their members.

Scope – LPP is not just about pooling investments but about combining fund’s entire pensions services along the same lines that Berkshire identified during Project BOB. Sharing administration resources will provide resilience, enable sharing of work loads and by sharing best practice across all shareholders generate efficiencies and cost-savings.

LPP will also be offering risk management services to their shareholders covering investment risk as well as employer risk. Officers opine that Berkshire should take advantage of these services to build on the Integrated Risk Management work currently being undertaken with Lincoln Pensions.

Susan Martin (Chief Executive LPP) and Sally Bridgeland (Chair LPP Investments) have been invited to the meeting to answer any questions Members may have.

- 2.1 Officers have held discussions with two other pools (ACCESS and Borders to Coast) and it is apparent that their initial proposals to the Department for Communities and Local Government did not meet the Department’s requirements on governance and both have had to amend their proposals. LPP is the only pool that met our three key criteria (Investment Strategy, Governance and Staffing) and continues to be the preferred option of Officers.

Option	Comments
Become a shareholder in Local Pensions Partnership	Recommended

Option	Comments
Become an investment client of Local Pensions Partnership	Not recommended even though this meets the Government's investment pooling directive a better outcome for stakeholders will be achieved by becoming a shareholder in LPP.
Join another investment pool	Not recommended – Cost savings would be limited; implementation of Berkshire's Investment Strategy difficult and Berkshire would have limited influence within a pool being a "latecomer to the party"
Do not join any investment pool	Not recommended – at the very least the Borough would incur the wrath of DCLG and adverse publicity

3. KEY IMPLICATIONS

3.1 Success will be best measured by whether or not the Fund meets the Government's requirement to have joined an investment pool and to have started pooling its investments by 1 April 2018.

Defined Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date they should be delivered by
Become a shareholder in LPP	No agreement reached	Agreement reached	Become a shareholder prior to 1 April 2018	n/a	1 April 2018

4. FINANCIAL DETAILS

Financial impact on the budget

4.1 There is no immediate impact on budgets, in the medium term (2018 onwards) cost savings will be generated.

5. LEGAL IMPLICATIONS

5.1 The Fund is required by DCLG as the LGPS Scheme Manager to pool its investments with other LGPS funds.

A legal review of the document required to become a shareholder in or investment client of LPP will be required.

6. VALUE FOR MONEY

6.1 By combining all the pension services managed by RBWM into LPP cost savings and efficiencies are expected to be achieved.

7. SUSTAINABILITY IMPACT APPRAISAL

7.1 None

8. RISK MANAGEMENT

8.1

Risks	Uncontrolled Risk	Controls	Controlled Risk
Poor governance of pool	No clear governance structure in place leading to a lack of accountability	Agree appropriate governance structures	Clear accountability
No cost savings generated	Investment costs are not controlled	Pooling of investments should lead to better negotiating ability and lower fees	Investment costs are controlled

9. LINKS TO STRATEGIC OBJECTIVES

9.1 None

10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

10.1 An Equality Impact Assessment will be required once approval to join LPP has been given by Panel.

11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

11.1 Staff will be transferred to LPP or one of its subsidiaries. RBWM will need to appoint a Liaison Officer.

12. PROPERTY AND ASSETS

12.1 Assets (e.g. lease on Minster Court, computers and office equipment) may be transferred to LPP

13. ANY OTHER IMPLICATIONS

13.1 The impact on stakeholders is expected to be minimal

14. CONSULTATION

14.1 Pension Fund Panel
Local Pensions Partnership

15. TIMETABLE FOR IMPLEMENTATION

15.1 To show the stages and deadlines for implementing the recommendations

Date	Details
7 June 2016	Issue Letter of Intent (if approved)
7 June 2016	Commence Legal Review (if approved)

16. APPENDICES

Annex 1 – Letter of Intent

17. BACKGROUND INFORMATION

Local Government Pension Scheme: Investment Reform Criteria and Guidance
(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf)

LGPS Investment Pooling Update – Pension Fund Panel 11 April 2016

Annex 1

Letter of Intent

Dear Susan,

In light of ongoing discussions between Local Pensions Partnership Ltd (LPP) and The Royal Borough of Windsor & Maidenhead ("RBWM") acting as the administering authority of The Royal County of Berkshire Pension Fund (Berkshire Pension Fund), this letter of intent establishes the foundations of these discussions. A Mutual Non-Disclosure Agreement is already in place.

RBWM is considering how it should meet the Government's directive that Local Government Pension Scheme Funds in England & Wales should pool their investment assets. As such as the administering authority for the Berkshire Pension Fund it is considering the various routes available in which to participate in the LPP Group. This could be as a shareholder in LPP Ltd, which brings with it the benefits of ownership and participation in the full range of pension fund services provided by LPP, or alternatively as an investor/customer of LPP Investments Ltd. The investor/customer route would involve a delegation of investment management services only. Both of the options above require RBWM to remain responsible for the strategic direction of the Berkshire Pension Fund, with the implementation of the strategies being carried by the LPP Group under suitably agreed legal documentation.

By signing this letter of intent both LPP and RBWM agree to collaborate to achieve a successful pooling outcome. This will include the further sharing of information, negotiation of legal agreements and working in a manner which is constructive to the development of the partnership. It also confirms that RBWM's pooling activities on behalf of the Berkshire Pension Fund will be solely focused on an interaction with the LPP Group.

In line with the agreed Mutual Non-Disclosure Agreement it should be highlighted that any intellectual property of either LPP or RBWM, that is shared, should only be used for the purposes of working collaboratively and with an aim to further the pooling initiatives discussed in this letter of intent. Should the pooling arrangement not come to fruition then both LPP and RBWM will be required to return shared documents and information to their respective partners, including any intellectual property.

Once RBWM have agreed to proceed at a political level, following the Berkshire Pension Fund Panel meeting on 6th June 2016, the following actions will be carried out:

- Appointment of legal advisors by LPP and RBWM to review and amend the relevant partnership legal documentation.
- Agreement of the Sovereignty Guarantee by RBWM
- Development of an implementation plan for the relevant partnering method selected
- Development of a transition plan for pension fund assets

The above activities may involve joint expenditure. A specific implementation budget and division of implementation costs will be agreed between the parties on a fair basis. However, for clarity, neither RBWM nor the Berkshire Pension Fund will be liable for any costs incurred to date in the establishment of LPP, nor will additional regulatory capital be required.

Signed On behalf of RBWM

Nick Greenwood

Pension Fund Manager

Signed on behalf of LPP

Susan Martin

Chief Executive Officer

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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