



NOTICE  
OF  
MEETING

**BERKSHIRE PENSION FUND PANEL**

will meet on

**MONDAY, 11TH JULY, 2016**

at

**4.00 pm**

In

**DESBOROUGH 2 & 3 - TOWN HALL,**

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS JACK RANKIN, JOHN LENTON (CHAIRMAN), GEOFF HILL,  
JOHN COLLINS AND DAVID HILTON (VICE-CHAIRMAN)

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

Karen Shepherd - Democratic Services Manager  
Issued: 01 July 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](http://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.	5 - 6
3.	<u>MINUTES</u>  To approve the Part I minutes of the meeting held on 6 June 2016.	7 - 12
4.	<u>ADOPTION OF HIGHER LIMITS FOR INVESTMENT IN LIMITED PARTNERSHIPS</u>  To consider the report.	13 - 16
5.	<u>LGPS INVESTMENT POOLING - LOCAL PENSIONS PARTNERSHIP</u>  To consider the report.	17 - 78
6.	<u>LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC</u>  <b>To consider passing the following resolution:-</b>  <b>"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"</b>	

**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 6 June 2016.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	79 - 80
8.	<u>ACTION TRACKING</u>  To consider the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	81 - 82
9.	<u>INVESTMENT WORKING GROUP MINUTES 26TH MAY 2016</u>  To note the minutes.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	83 - 88
10.	<u>LGPS POOLING - LOCAL PENSIONS PARTNERSHIP PROJECTED COST SAVINGS</u>  To consider the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	89 - 92



## 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, 6 JUNE 2016

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

INDEPENDENT ADVISER TO THE PANEL: Mr Dhingra

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

### APOLOGIES

Apologies for absence were received by Cllr Hill, Cllr Brooker and Cllr Rankin.

### DECLARATIONS OF INTEREST

Berkshire Pension Fund officers declared an interest in LGPS Investment Pooling due to TUPE implications.

### MINUTES

The Part I minutes of the meeting held on 11<sup>th</sup> April 2016 were approved as a true and correct record subject to the following changes:

- Page 10, Pane changed to Panel.
- Page 11, one employer be changed to one employee.
- Page 12, in place in, the second in to be deleted.

### COMPOSITION OF THE BERKSHIRE PENSION FUND ADVISORY PANEL

The Chairman informed the Panel that the Pension Panel and Advisory Panel was comprised of:

- The Pension Fund Panel, five RBWM Members (the administering authority).
- Five representatives from the unitary authorities.
- Two employer representatives the University of West London and Thames Valley Probation Trust.
- Two employee representatives; UNISON and GMB.
- A Pensioner Member and an Active Member representative.

As the Thames Valley Probation Trust had been transferred to the Greater Manchester Pension Fund it was an opportunity to review the membership.

The Pension Fund Manager informed that it was proposed to change the membership to:

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.

It was also proposed that the term of office for members of the Advisory Panel who are not appointed by a Unitary Authority run alongside the administering authority's electoral cycle and those members be required to attend at least two meetings per year. Failure to attend two meetings in a year could result in the Panel requesting the Advisory Panel member to step down.

Cllr Hilton asked if Advisory Panel members did not meet the attendance criteria would they be automatically excluded or would it be on a case by case judgement. The Panel agreed that it would be judged by each case at the discretion of the Berkshire Pension Fund Panel.

Cllr Stanton mention that if cases of non-attendance did arise the Panel should be mindful of special circumstances such as injury or sickness and raised concern that the Advisory Panel's vote would be lessened by the additional member. The Pension Fund Manager replied that the Panel could, if it so wished, remove the University of West London as they had not attended Panel meetings recently..

It was noted that the Panel had never voted against the wishes of the Advisory Panel.

**Resolved Unanimously: that the Panel recommends to Council that the composition of the Berkshire Pension Fund Advisory Panel be amended to that shown in section 2.6 of the report.**

## LGPS INVESTMENT POOLING - LOCAL PENSIONS PARTNERSHIP

The Chairman introduced the report regarding LGPS Pooling and informed that the Government was pushing the drive for mandatory pooling of LGPS investments. To meet its obligations the report was recommending that a letter of intent be issued to the Local Pensions Partnership (LPP) with the intention of becoming a shareholder in Local Pension Partnership.

The Chairman introduced Susan Martin, Chief Executive LPP and Sally Bridgeland, Chair of the LPP Investment Board.

The Chairman circulated a list of minimum requirements for Berkshire to join LPP pool and asked the Panel for their comments. The list was:

1. No compulsory redundancies or forced relocation of staff. Staff to be TUPE'd to LPP
2. Title to Berkshire pooled assets to remain with Berkshire
3. Custodian of Berkshire cash and other assets to be selected by Berkshire
4. Berkshire to be shareholder in LPP
5. Berkshire to have right to appoint a non executive director to the Board of LPP. Such a person will normally be an elected Councillor of the administrative authority for Berkshire. (Currently RBWM). Remuneration will be the same as for other non executive directors and such remuneration will be paid to the administrative authority for Berkshire.
6. A senior RBWM Officer will be appointed to the Investment Committee of LPP Investments and RBWM approval will be required for the appointment of any successor.
7. Investment strategy and asset allocation will be set by Berkshire.



8. The Berkshire Pension Fund Panel may have a mechanism whereby it can select up to 10% of the assets of Berkshire in the pool with the returns being at the risk of Berkshire and within the agreed strategy of Berkshire. This would have two purposes, first to enable use to invest, usually locally, where we see local opportunities and second to ensure that we have the motivation to monitor what the pool is doing with our money
9. Berkshire will also bring to the attention of LPP funds in which Berkshire would like to invest although the final investment decision will be for LPP.
10. Existing investments which are illiquid or uneconomic to transfer to a pool would be managed by LPP for the benefit of Berkshire with, income, profits or losses for the account of Berkshire.

The Pension Fund Manager gave an overview of the progress being made towards pooling as discussed at previous meetings and that in response to ongoing discussions with the DCLG there had so far been no response to the request for confirmation that the LPP would be an authorised Pool.

As well as ongoing discussions with the LPP there had also been contact with the Border to Coast Pool but they had said we could join but only on their terms.

The Chairman reported that the biggest loss when we pool would be the local administration and a limited ability to select our own investments. He would be requesting that 10% of the Berkshire fund be made available for investment under Berkshire control and informed that the title of assets would remain with the Berkshire Pension Fund, RBWM would be a shareholder in LPP with the right to appoint a non executive director and that a senior RBWM officer will be appointed to the LPP Investment Committee.

The Pension Fund Manager informed that if we joined LPP they did intend to keep at least an administration presence in Berkshire, albeit at a reduced level.

In response to questions the Panel were informed that the management of the Berkshire Pension Fund would be done by the LPP, that there would be a sovereignty agreement with strategic asset allocation and investment strategy remaining with the Panel..

Cllr Worrall questioned the comment that assets would remain with Berkshire and was informed that title to assets held by the Fund, including units in any pooled vehicle managed by LPP in which Berkshire was invested would, as is the case currently, be beneficially owned by RBWM as the administering authority for the Pension Fund. Berkshire would say what percentage they wished to invest in any asset class and LPP would be responsible for selecting an appropriate investment manager.

Cllr Hilton asked if we would be going ahead with pooling if it was not being driven by Government and was informed that the Panel had been looking at joint arrangements with project BOB.

Cllr Hilton also mentioned that the Panel had established that sometimes smaller investments were able to provide higher returns and asked how these opportunities could be maintained. The Panel were informed that it was a question of where we could get best returns and what cash flow requirement you have. We would still be able to invest in smaller projects but being part of LPP would open up the larger scale investment opportunities that were previously out of reach. There would also be a sharing of expertise. Cllr Hilton said it would be good to have a list of these additional opportunities that arise by being in a large pool.

Cllr Law raised concern that there was insufficient information to make a decision and questioned what would happen if West Berkshire Council did not agree; could they withdraw? The Panel were informed that the LPP was a joint venture between the London Pension Fund

Authority and the Lancashire County Council, they are the joint share holders but they also do pension administration work for other LGPS funds. If Berkshire joined they would have equal voting rights. The Pension Fund Panel and Advisory Panel would continue to exist and the Board would still be a legal requirement but it may be a tri-party board (subject to Government approval). If we did not merge with the LPP and became an investment only client then we would have no say over governance.

In response to questions from Sue Nicholls the Panel were informed that the LPP was a limited company with our liability being £1 with the company having liability insurance, the object of pooling was to decrease management costs and if we transferred our global investments there could be saving of about £900k per year in the long term.

With regards to the minimum requirements list it was noted that this could be changed as it was drawn up by the Chairman and that the successor or the RBWM representative on the Investment Committee would require RBWM approval.

In response to questions the Panel were informed that there may be a fourth share holder in the future but they would have to have a shared philosophy, the other two share holders were supportive of Berkshire joining and a shareholders agreement was being drawn up. With regards to our say on the LPP board we would be an advantages position given the size of our assets compared to the other shareholders who have put in substantially more assets.

The Pension Fund Manager reminded the Panel that the report was asking for authority to enter discussions with LPP and that negotiations were not expected to be completed until 2017.

It was agreed that a briefing paper would be prepared to take back to the other Berkshire authorities.

It was noted that RBWM staff would be subject to TUPE arrangements and by joining a larger pool would give staff more opportunities.

**Resolved unanimously that the Panel:**

- i. agrees to defer that the Berkshire Pension Fund should pool its assets with Local Pensions Partnership**
- ii. agrees to defer that the 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**
- v. request Officers produce a comprehensive summary of the proposals to be circulated to Berkshire Leaders, Panel Members and Advisory Members.**
- vi. authorise Officers to use the 'Minimum Requirements for Berkshire to join LLP pool' document as part of the negotiations with Local Pensions Partnership.**

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 6.00 pm

CHAIRMAN.....

DATE.....

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Report for: **ACTION**



<b>Contains Confidential or Exempt Information</b>	<i>NO - Part I</i>
<b>Title</b>	Adoption of higher limit for investment in Limited Partnerships
<b>Responsible Officer(s)</b>	Nick Greenwood, Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	N/A
<b>For Consideration By</b>	Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	11 July 2016
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	None

## REPORT SUMMARY

1. This report requests Panel to approve the higher limit of 30% for investments in Limited Partnerships to facilitate investment in the Ancala UK Infrastructure Fund approved by Panel on 11 April 2016.

## 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. Adoption of the higher (30%) limit will allow the Fund to make its planned investments in Ancala UK Infrastructure Fund and other pending investments	Immediate

## 1. DETAILS OF RECOMMENDATIONS

**RECOMMENDATION:** That Panel

**i. adopts the higher limit of 30% for investment in Limited Partnerships as permitted by the LGPS (Management and Investment of Funds) (Amendment) Regulations 2013..**

**2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED**

On 18 January 2010 Panel adopted the higher limits as set out in Schedule 1, LGPS (Management and Investment of Funds) Regulations 2009.

The LGPS (Investment and Management of Funds) (Amendment) Regulations 2013 increased the maximum amount permitted to be invested in Limited Partnerships from 15% to 30% of the Fund's value at the time of investment.

Currently, following good performance and payment of capital calls, the Fund has approximately 20% of its assets invested via Limited Partnerships.

Panel agreed on 11 April 2016 to invest £50 million in a managed account with Ancala to invest in UK mid-sized Infrastructure projects. This account will now be in the form of a Limited Partnership, however, as most of our private investments are in the form of Limited Partnerships and following good performances and calls of capital from our existing Limited Partnerships there is no headroom for the Ancala Limited Partnership.

According Officers, to avoid any ambiguity in the Fund's adoption of the higher limits in 2010, are requesting Panel to confirm that the 30% limit for investments in Limited Partnerships be adopted.

<b>Option</b>	<b>Comments</b>
Adopt the higher limits, specifically the 30% limit for Limited Partnerships	<b>Recommended – this higher limit is needed to facilitate the Ancala investment and other pending investments</b>
Do not adopt the higher limits, specifically the 30% limit for Limited Partnerships	Not recommended as this will prevent the fund from investing with Ancala

**3 KEY IMPLICATIONS**

This will facilitate the investment of Pension Fund monies

**4. FINANCIAL DETAILS**

**Financial impact on the budget - None**

**5. LEGAL IMPLICATIONS**

Compliance with Regulations

**6. VALUE FOR MONEY**

N/A

**7. SUSTAINABILITY IMPACT APPRAISAL**

None

**8. RISK MANAGEMENT**

N/A

**9. LINKS TO STRATEGIC OBJECTIVES**

None

**10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION**

10.1 N/A

**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**

Immediate

**16. APPENDICES**

LGPS (Management and Investment of Funds) (Amendment) Regulations 2013

**17. BACKGROUND INFORMATION**

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Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO - Part I
<b>Title</b>	LGPS Investment Pooling – Local Pensions Partnership Update
<b>Responsible Officer(s)</b>	Nick Greenwood, Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	Cllr John Lenton
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	11 July 2016
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	All

## REPORT SUMMARY

1. This report updates Members on the progress the Pension Fund has made on Pooling.

## 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 2018

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- i. notes the Stakeholder briefing note at Annex 2
- ii. considers whether it agrees that the Berkshire Pension Fund should pool its assets with Local Pensions Partnership Limited
- iii. considers whether if Panel agrees to pool the pension fund's assets with the Local Pensions Partnership Limited it requests the Royal Borough as the administering authority for the Berkshire Pension Fund to become a shareholder in Local Pensions Partnership Limited
- iv. agrees that if it agrees to pool assets with Local Pensions Partnership Limited that Berkshire should be become a party to the Local Pensions Partnership submission to the Department for Communities and Local Government at Annex 3.
- v. notes that a formal legal review of legal documentation in respect of any relationship with Local Pensions Partnership has not yet started.

## 2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

At its meeting on June 6<sup>th</sup> Panel considered whether the Pension Fund should pool its assets with the Local Pensions Partnership Limited. Members requested that a more detailed briefing note be prepared which they could share with colleagues. This briefing note is attached at Annex 2 to this paper.

Panel agreed that the Letter of Intent at Annex 1 should be signed and this was forwarded to Local Pensions Partnership on June 7<sup>th</sup>. Panel authorised Officers to begin a formal legal review of the documents required for the Fund to participate in pooling with LPP and for The Royal Borough to become a shareholder in LPP. Members are requested to note that this review has not commenced as Officers are waiting for LPP to deliver "signing ready" documents prior to commencing a review in an attempt to keep legal costs to the lowest amount possible.

Option	Comments
Become a shareholder in Local Pensions Partnership	This appears to be the best option available for pooling albeit it appears that immediate cost savings will be negligible.
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	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

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
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

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

## **16. APPENDICES**

**Annex 1 – Letter of Intent**  
**Annex 2 – Stakeholder Briefing**

**Annex 3 – LPP response to the Department for Communities and Local Government.**

**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](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

LGPS Investment Pooling – Local Pensions Partnership – Pension Fund Panel 6 June 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

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**Susan Martin**  
**Local Pensions Partnership**  
**2<sup>nd</sup> Floor**  
**169 Union Street**  
**London**  
**SE1 0LL**

**6 June 2016**

### **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 <sup>out</sup> 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



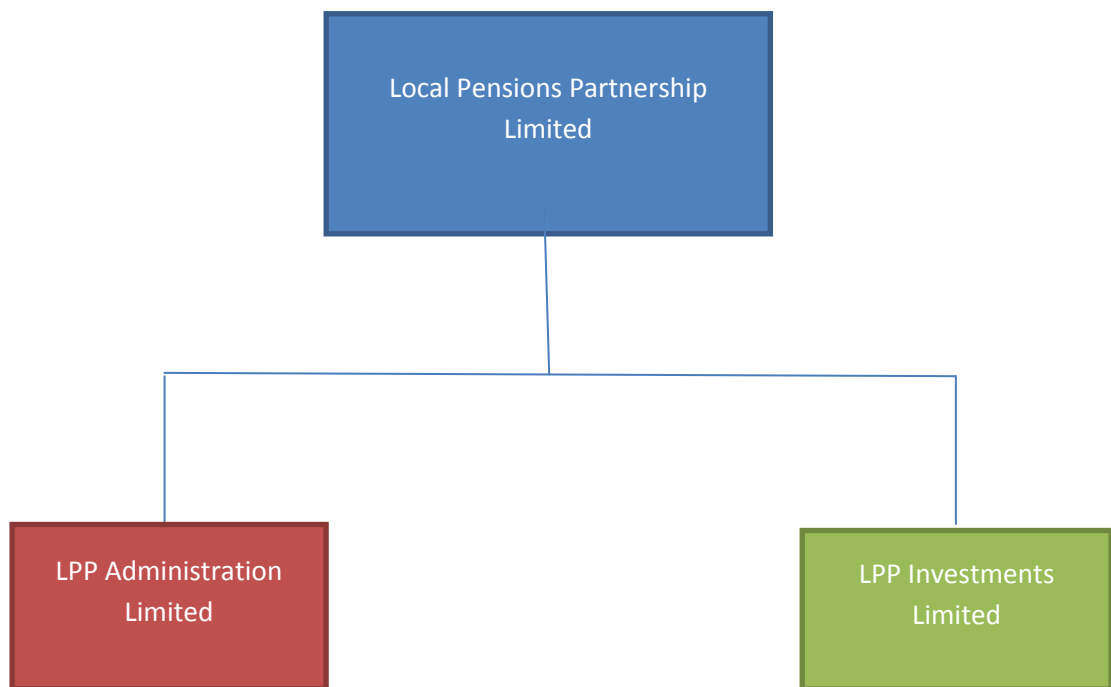
Susan Martin

Chief Executive Officer

**Local Pensions Partnership**  
**Stakeholder Briefing June 2016.**

**Executive Summary**

- The Government requires English and Welsh LGPS funds to pool their investment assets.
- Following discussions with a variety of nascent pools Officers opined that the best interests of Berkshire would be met by the Local Pensions Partnership Limited (“LPP”).
- LPP is a joint venture between the London Pension Fund Authority (“LPFA”) and Lancashire County Council.
- LPP is not just about pooling investments but is about creating a full service pensions operation.
- LPP is, unlike the other pools, already operational on both the investments and administration fronts.
- LPP is looking to increase its client base and its assets under management to meet the minimum criteria set by the Department for Communities and Local Government.
- Should LPP fail to meet the size criteria (£25 billion) for assets under management it will require a waiver from DCLG to continue as an investment pool.
- These services will be supplied to Berkshire via LPP’s two subsidiaries – LPP Investments Ltd and LPP Administration Ltd.



- Officers recommend that should Berkshire wish to join the LPP Pool it does so by becoming a shareholder partner in LPP and merges its pensions team with that of LPP to allow Berkshire to gain access to all of LPP’s services.
- As a shareholder partner in LPP RBWM as the administering authority for the Fund would be able to appoint a non-executive director to the LPP Board and hence have a voice in the governance of LPP.
- RBWM would hold one-third of the shares in LPP and be an equal partner with LPFA and LCC.
- In addition a senior RBWM Officer will be appointed as “Berkshire’s voice” on LPP Investments Ltd Investment Committee.
- RBWM will retain at least one Officer to be the prime contact between RBWM as the client and LPP as the service provider. This Liaison Officer will act as the interface between the Panel and LPP and manage the contract between the Borough and LPP.
- The Pension Fund will not have to reimburse LPFA or Lancashire for any of the set-up costs already incurred (£1.5 million) nor contribute to the regulatory capital required by LPP Investments.
- Officers have identified the following advantages for Berkshire in joining LPP:
  - A clearly defined role in the governance of LPP
  - The ability to gain exposure to potential investments that Berkshire may otherwise not see
  - The ability to share best practice across all pension services
  - Considerable reduction in “key person” risk
  - Greater resilience across the whole pension fund
  - The potential to reduce costs both investment management and administration costs.
- Also attached at Annex 1 is a Frequently Asked Question and Answers sheet prepared by LPP.

**Nick Greenwood**  
**Pension Fund Manager**  
**Royal Borough of Windsor & Maidenhead**

## Acronyms and Abbreviations

<b>ACS</b>	Authorised Contractual Scheme – a tax transparent wrapper for pooling investments
<b>Berkshire</b>	The Royal County of Berkshire Pension Fund or The Royal County of Berkshire dependent on context
<b>DCLG</b>	The Department for Communities and Local Government
<b>Lancashire</b>	Lancashire County Council or Lancashire County Council Pension Fund depending on context
<b>LCC</b>	Lancashire County Council
<b>LCPF</b>	Lancashire County Council Pension Fund
<b>LGPS</b>	The Local Government Pension Scheme
<b>LPFA</b>	London Pension Fund Authority
<b>LPP</b>	Local Pensions Partnership a holding company for LPP Investments Ltd. and LPP Administration Ltd.
<b>LPPA</b>	LPP Administration Limited
<b>LPPI</b>	LPP Investments Limited
<b>Project BOB</b>	The project with Buckinghamshire and Oxfordshire County Councils to create a shared pensions service which was abandoned in December 2014
<b>RBWM</b>	The Royal Borough of Windsor & Maidenhead the administering authority for The Royal County of Berkshire Pension Fund

## Background

During 2013/15 the Berkshire Pension Fund held extensive discussions with the Oxfordshire and Buckinghamshire pension funds about combining their pension teams into a single unit to manage the three funds (“Project BOB”). Each fund would have retained its identity, assets and liabilities but the provision of administration, financial and investment services would have been via a shared service. The Pension Fund Panel accepted the logic of such a combination and was in favour of proceeding. Unfortunately both Oxfordshire and Buckinghamshire decided that they did not wish to proceed with the project citing concerns over disparate investment strategies.

In July 2016 the Chancellor announced a “consultation” with LGPS administering authorities about pooling of LGPS investments to create six “British Wealth Funds” – it appears that this consultation was highly informal (no formal consultation documents were issued) and Berkshire were not consulted. In November the Department for Communities and Local Government (“DCLG”) published their criteria for the pooling of LGPS investments.

In early December the Pension Fund Manager reached out to all 88 administering authorities by email. This email included a summary of our investment strategy and invited like-minded funds to contact us to discuss possible ways forward. Very few funds responded – but negative responses can be summarised as:

- We don’t understand your investment strategy
- You are not located in our geographic region

On the other hand 3 potential pools did make contact and initial discussions held. Of these pools two stated that they wanted to follow a joint committee (similar to that proposed under Project BOB) approach rather than the Treasury’s preferred route of creating an Authorised Contractual Scheme (“ACS”) to manage the assets<sup>1</sup>.

In December the London Pension Fund Authority and Lancashire County Council wrote to RBWM asking if we would be interested in joining their pool (the Local Pensions Partnership or “LPP”). From initial discussions it was evident that LPP were in a position to deliver on 2 of our criteria and commit to deliver on the third. Our criteria being:

- Governance structure – LPP’s structure is such that RBWM has a voice whilst meeting the Government’s key desire that fund manager decisions are removed from Local Authority Control

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<sup>1</sup> The Government’s intention is that the selection of fund managers should be carried out at the pool level and not by Elected Members at the local level. Managing a pool via a Joint Committee would leave manager selection at the local level contrary to the Government’s intention.

- Ability to meet our Investment Strategy – LPP have indicated that they will be able to deliver our investment strategy
- Quality of investment staff – whilst LPP’s staff are a relatively new team (LPFA and Lancashire have been building up their internal investment teams) there is a degree of experience which would be bolstered should RBWM staff transfer into LPP.

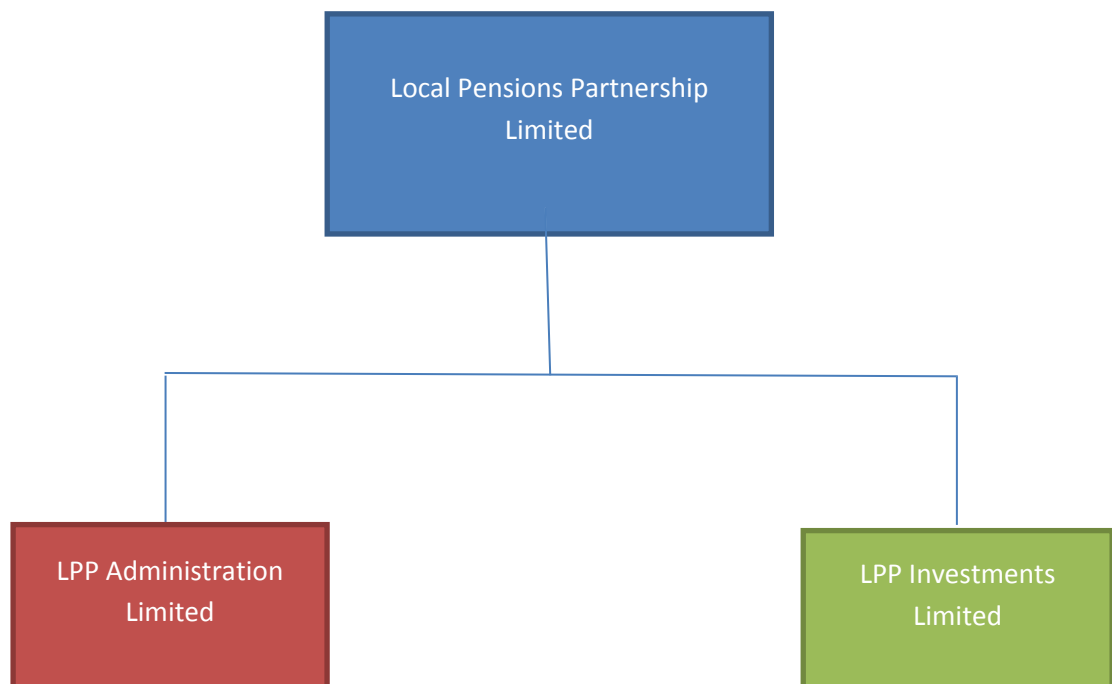
### Proposal

It is proposed that the Pension Fund becomes a shareholder partner in the Local Pensions Partnership to benefit from the full range of services offered. **This is exactly the same as the proposal behind Project BOB albeit the delivery mechanism is slightly different.**

### Local Pensions Partnership Limited

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.

Local Pensions Partnership Limited is a holding company with two wholly owned subsidiaries LPP Investments Limited and LPP Pensions Administration Limited. Each company has its own board of directors.



It is proposed that Berkshire should become a shareholder in LPP to participate fully in all the services offered by LPP as well as having a “voice” in the governance of LPP. As a shareholder Berkshire would be able to nominate a non-executive director to the Board of LPP. Additionally it would have shareholder voting rights – it is Lancashire’s and LPFA’s desire that all funds within LPP should have equal voting rights. Should Berkshire (and we are currently the only fund in detailed discussions with LPP) be the only additional fund to join LPP then we would have one-third of the shareholder voting rights.

LPP will (assuming Berkshire join) have a board of ten directors<sup>2</sup>:

LPP Limited
Board of Directors
Michael O’Higgins (Chair)
David Borrows (Lancashire shareholder non-executive director)
Skip McMullen (LPFA shareholder non-executive director)
TBC (Berkshire shareholder non-executive director)
Sir Peter Rogers (non-executive director)
Bob Vandersluis (non-executive director)
Sally Bridgeland (non-executive director)
Vacant (non-executive director)
Susan Martin (Chief Executive Officer)
George Graham (Chief Financial Officer)
Angela Smith (Interim Chief Risk Officer)

### **Berkshire Pension Fund Minimum Requirements**

1. Berkshire/RBWM to be a shareholder in LPP

*LPP Response: Agreed*

<sup>2</sup> Best practice is for there to be a majority of independent non-executive directors i.e. 4 independents and 3 shareholder non-executive directors



2. Berkshire/RBWM to have the right to appoint a non-executive director to the Board of LPP on the same terms as other shareholder non-executive directors (all fees to be payable to RBWM).

*LPP Response: Agreed*

*This individual may be a councillor, an executive or a fund adviser, so long as they meet eligibility criteria as specified by the shareholder nominated job description which will be discussed with Berkshire.*

*Each shareholder non-executive director receives remuneration of £30,000 per annum. This sum can be allocated (in percentage terms) to the individual and/or the authority, as Berkshire determines.*

3. RBWM's existing pensions staff to be "TUPE" transferred to LPP (or appropriate subsidiary) with no compulsory redundancies or forced re-location of staff.

*LPP Response: Agreed*

*Existing RBWM staff, who spend 50% or more of their time on a service which is being transferred to LPP, will be 'TUPE' transferred to LPP (or appropriate subsidiary). Our model allows for multi-site operations, so staff can be located where appropriate. Over time, there will inevitably be some harmonization of activities and roles to ensure that all LPP's participating funds share in the efficiencies and cost savings that being part of a larger group offers. For example, bulk processes will be consolidated to take advantage of cost savings. These business developments will potentially lead to some change in individuals' responsibilities, such that in the case of a former Berkshire staff member, their remit may expand to include wider LPP activities.*

## **Berkshire's Rights and Berkshire Reserved Matters as an LPP Shareholder**

As a shareholder in LPP Berkshire will have the right to appoint a shareholder non-executive director and to vote at General Meetings of LPP.

There will be a shareholders agreement that currently reserves the following matters to shareholders. It is anticipated that some of these may be subject to change for practical purposes. Whilst they were appropriate for the set-up phase, it was always acknowledged by all parties that they may be impractical for on-going business and with the addition of further shareholders. The current reserved matters include<sup>3</sup>:

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<sup>3</sup> These will be subject to negotiation if Berkshire elects to become a shareholder in LPP

- Changes to remuneration policy of directors or individual employees earning more than £100,000 per annum
- Changes to the Articles of Association or any rights attaching to shares
- Dilution on shareholdings (i.e. admitting new shareholders to LPP)
- Incorporation or winding up of subsidiaries or the acquisition of significant share interests
- Sale of any subsidiary
- Merger/acquisition of any business undertaking
- Creation of any holding company or joint venture company
- Any other matter, which in the opinion of the LPP Board or one of the shareholders, is or could become of sufficient importance to significantly change or adversely affect the operation or reputation of the organisation
- Agreement to enter into or participate in a wider pooling arrangement with another LGPS fund.
- Proposed redundancies or re-location of any LPP Group employees
- Approval or amendment of the Strategic Plan
- Extend the activities of the group or close down any business operation
- Give any guarantee or suretyship or indemnity outside the ordinary course of business
- Appoint or remove auditors
- Alter the Group's accounting date
- Make any significant changes to accounting practices
- Create any encumbrance or charge over any of the Group's assets
- Receive the annual report
- Establish, provide or amend any pension scheme
- Incur capital expenditure (other than operating leases) exceeding £5 million in any one year
- Enter into any operating lease for a period exceeding 10 years or aggregate payments in excess of £5 million over the life of the lease.
- Factor or discount any book debts of the Group
- Give or take any loans, borrowing or credit (other than normal trade credit in the ordinary course of business) in excess of £1 million or cause the aggregate indebtedness of the Group to exceed £5 million
- Make any agreement or settlement with the tax authorities
- Change the bankers of the Group
- Pay or declare any dividend or redeem or buy back any shares
- Reorganise the share capital of LPP
- Increase the amount of any shareholder loans or vary the terms of such loans
- Repurchase, repay, redeem or cancel any shareholder loan other than in accordance with the Loan Agreement

- Enter into any agreement with a shareholder for the provision of any additional funds or funding support that differs from the terms on which any other shareholder is providing equivalent finance or support.
- Change the name of LPP
- Change the status of LPP from a private limited company
- Appoint or remove any Chief Executive
- Appoint or remove any director other than in accordance with the Articles of Association or Shareholders Agreement
- Enter into any consultancy or management agreement which will, or is likely to, result in LPP being managed other than its directors or being controlled other than by its shareholders
- Move the central management and control of LPP or its tax residence outside the UK
- Change the registered office of LPP
- Enter into or terminate any contract of employment with or contract for the provision of services by any person or persons whose aggregate remuneration or fees exceeds £500,000 per annum (ignoring the termination of any such contract for gross misconduct) or change the terms of any such contract.
- Enter into or vary any agreements with shareholders or directors
- Commence any insolvency proceedings unless the directors reasonably consider that LPP should be wound up or enter administration
- Enter into any partnership, joint venture or profit sharing arrangement with any person or create any share option scheme
- Enter into or make any material variation to any agreement not in the ordinary course of business and/or which is not an arm's length basis
- Sell, lease, license, transfer or otherwise dispose of any of LPP's material assets
- Enter into any contract (other than an investment management agreement) which can not be terminated within 48 months or under which the liability for termination could exceed £1 million
- Commence, settle or defend any claim, proceedings or other litigation brought by or against LPP, except in relation to debt collection not exceeding £2 million, in the ordinary course of business.

In addition reserved specifically to each administering authority in LPP are:

- Setting local priorities, strategic asset allocation, employer contribution rates and administering authority discretions under the LGPS Regulations
- Appointing the administering authority's pensions committee (that is the Berkshire Pension Fund and Pension Fund Advisory Panels).

- Retaining the administering authority’s constitution, setting out how it makes decisions, organises scrutiny and delegates authority (although the power to appoint investment managers must be delegated to LPP Investments Limited)
- Discharging all statutory responsibilities
- Publishing the Pension Fund Annual Report and Financial Statements (a statutory obligation of the administering authority although LPP could prepare these)
- Accountability to existing and future members of the Fund
- Servicing the Berkshire Pensions Board although there may, in time, be the possibility of creating a joint Pensions Board with other shareholders

### **LPP Administration Limited (“LPPA”)**

LPPA will be responsible for all the non investment related services offered by LPP primarily pensions administration but including other services such as employer monitoring and communications.

RBWM’s pensions administration team (16 staff) will transfer and continue to provide services to our stakeholders. Over time some services may be provided by other partners in LPP but there is a commitment to retain a presence in Berkshire to be the stakeholder facing operation.

LPPA has a board of 4 directors:

LPP Administration Limited (100% owned by LPP)

Board of Directors

Sir Peter Rogers (Chair, LPP Board Member)

George Graham (Chief Finance Officer and LPP Board Member)

Michael O’Higgins (LPP Chair)

Jacqui Self (Head of HR LPP)

### **Berkshire Pension Fund Minimum Requirements**

4. That LPP retain an administration office in Berkshire

*LPP Response: Agreed*

*As explained above, LPP’s model allows for multi-site operations, although we do reserve our right to reallocate certain administrative functions to other parts of the organisation to deliver cost and service efficiencies. This could equally involve some functions for all customers being handled in Maidenhead, depending on where centres of expertise exist within the business.*

*RBWM will retain its own ‘client-side’ presence*

*A point that was not specifically discussed at the meeting on 6th June 2016 was the necessity for RBWM to retain its own client-side employee(s) to manage/oversee the agreement with LPP and provide a point of contact for LPP with the Authority. This could be one or more individuals as RBWM wishes. There are equivalent roles within both LPP's existing shareholder authorities and also within each of the third-party administration contracts that LPP runs. If required, LPP can provide contacts within existing shareholder and/or customer organisations, who could provide insight into how this function could be set up within RBWM.*

***Berkshire Pensions Panel and Pensions Board***

*Both the Pensions Panel and Pensions Board will be important touch points between the RBWM, the fund's employers and members and LPP. In both instances, LPP will provide representatives (Nick Greenwood, or others, as appropriate from both the investments and pension administration sides) to attend meetings as required and keep fund representatives up to date with what LPP is doing on its behalf.*

**LPP Investments Limited (“LPPI”)**

LPPI intend to offer a full investment service to LPP shareholders and any other LGPS funds who wish to use LPPI as their investment manager without becoming shareholders in LPP.

RBWM's existing investment staff will be TUPE transferred to LPPI.

LPPI has a board of 6 directors:



LPPI has been authorised to provide a full investment management service to its clients (shareholders in LPP will become clients of LPPI for regulatory purposes and

sign Investment Advisory Agreements). The Investment Advisory Agreement will set out Berkshire's Investment Strategy and asset allocation requirements (including minimum/maximum bounds per asset class), however, it will be at the discretion of LPPI whether [particular assets and mandates are managed by suitably qualified LPPI staff or out-sourced to another FCA authorised firm.

LPPI will manage assets in three "pools" namely:

Authorised Contractual Scheme – an umbrella fund to manage securities listed on a Recognised Stock Exchange. Sub-funds would be created to manage categories (e.g. active global equities, passive UK equities).

Illiquid non-pooled assets – investments in unlisted securities and private funds e.g. direct property holdings, infrastructure and private equity funds.

Legacy Holdings – these are assets currently owned by the individual funds where it is too expensive or impractical to transfer them into a pool. This would encompass Berkshire's existing private equity, private debt and infrastructure funds.

#### **Berkshire Pension Fund Minimum Requirements**

5. Title of Berkshire Pension Fund assets remains with Berkshire

*LPP Response: Agreed*

*Assets and investments which remain physically held on the balance sheet of Berkshire ('legacy assets') remain under the direct ownership of Berkshire, although the management and oversight will be pooled - bringing immediate efficiency and cost savings.*

*Over time assets shall be transitioned into pooled funds. At this point Berkshire's interest shall be in units of the pooled fund – as is the case for all funds Berkshire currently owns. The pooled fund shall own the underlying securities purchased by the manager.*

6. Berkshire to select global custodian(assets and cash) and bank

*LPP Response: There are two custodial relationships which will be maintained.*

*Firstly, Berkshire will continue to maintain their relationship with their existing custodian. This is for the purpose of providing custody over the existing "legacy" assets, even if those legacy assets are managed by the partnership. The Berkshire custodian will also hold custody of units in any pooled vehicle and any locally held assets which are outside of the partnership (should there be any).*

*Secondly, LPP I itself has a custodial relationship with Bank of New York Mellon. This is for depositary, asset servicing and transfer agency services for the partnership and pooled vehicles. This appointment has been made by the LPP I Board.*

*Note: one or both current shareholders are considering tendering for custodian services given the expiry of existing contracts in the near future. They will be using the LGPS framework process to ensure a less costly and more efficient selection process. There is an opportunity for Berkshire to join this process if required. This tender would be to provide services replacing the equivalent of Berkshires current custodian as listed above. The custody services provided to LPP I and pooled funds is not part of this tender*

7. A senior RBWM Officer to be appointed to LPPI's Investment Committee; any successor to be approved by RBWM

*LPP Response: It is the intention that Nick Greenwood, Berkshire's current Pension Fund Manager, would be TUPE transferred to LPP I and become a member of the Investment Committee. Nick would continue to be the main point of contact for RBWM.*

*As LPP I is an FCA authorized entity, it is essential that any senior investment professional meets the FCA criteria required to manage investments and be deemed "fit and proper" by the FCA. Future, appointments shall be made by LPP I with shareholders ratifying the senior members of the team who are statutory directors.*

*LPP recommend that Berkshire retain the services of a "client side" employee in order to oversee and monitor the partnership on behalf of the pension fund.*

8. Investment Strategy and Asset Allocation will be set by Berkshire

*LPP Response: Agreed.*

*A contractual agreement will be concluded – the Advisory and Management Agreement (AMA) - between LPP I and Berkshire. This governs the implementation of the investment strategy and provides LPP I with the delegated authority to implement the strategy in line with the strategic requirements of Berkshire. Berkshire will set the objectives and strategic asset allocation, whilst LPP I makes all sub asset class and manager/stock selection decisions.*

9. The Berkshire Pension Fund Panel may have a mechanism whereby it can select up to 10% of the assets of Berkshire in the pool with the returns being at the risk of Berkshire and within the agreed strategy of Berkshire. This would have two purposes, first to enable us to invest, usually locally, where we see local opportunities and second to ensure that we have the motivation to monitor what the pool is doing with our money.

*LPP Response: The DCLG criteria allow LGPS funds to retain local investments outside the pool with the approval of the Secretary of State. Berkshire will need to gain approval from DCLG for any such investment. In principal and subject to DCLG permission, provision can be made in Berkshire's AMA for a percentage of assets to be allocated to local investments for the sole benefit of Berkshire. These could either be managed via the pool (on an advisory basis) or with local resources at Berkshire.*

10. Berkshire will bring to the attention of LPP I funds in which it would like to invest although the final investment decision will lie with LPP I

*LPP Response: Agreed.*

*LPP I will consider all proposals that Berkshire or the other shareholders put forward, and carry out rigorous due diligence on any that are deemed potentially suitable. LPP I has the final investment decision on which proposals go ahead.*

11. Legacy Investments (i.e. those too illiquid or uneconomic to transfer to a pool) will be managed by LPP I for the benefit of Berkshire

*LPP Response: Agreed.*

## **Conclusion**

Whilst the Government's insistence on mandatory pooling of English and Welsh LGPS funds investments is not entirely welcome we are of the view that the best outcome for Berkshire will be to become a shareholder partner in Local Pensions Partnership Limited. The key advantages of becoming a shareholder can be summarised as:

- A clearly defined role in the governance of LPP
- The ability to gain exposure to potential investments that Berkshire may otherwise not see
- The ability to share best practice across all pension services
- Considerable reduction in "key person" risk
- Greater resilience across the whole pension fund
- The potential to reduce costs both investment management and administration costs.



# Local Pensions Partnership: FAQs for Berkshire

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## What is the background to LPP?

LPP Ltd launched on 8<sup>th</sup> April, 2016, marking the end of an 18-month journey to create LPP and to crystallise Lancashire County Pension Fund's (LCPF) and London Pensions Fund Authority's (LPFA) shared vision of an organisation focused on delivering benefits across a much wider range of activities than purely through asset pooling.

Our funds came together because we wanted to achieve a critical mass to deliver significant economies of scale and improvements across the totality of our respective operations, leading towards better management of our liabilities, improved fund stability and long-term deficit reduction. We were well ahead of Government initiating the wider LGPS pooling process and have always been much more ambitious in what we want to achieve; both funds believe that only by managing assets and liabilities together will long-term and sustainable deficit reduction be achieved.

LPP is a pensions services organization, which means we seek to manage a full range of pension fund functions including risk at all levels within our partner funds, both to improve their long term-fund performance and to ensure they meet all applicable regulatory standards. This concept spans all activities, from regulatory compliance, employer risk management and pension administration to integrated asset and liability management and reporting. The effective interaction of all these elements enable us to more accurately address the liabilities of the pension funds involved to achieve deficit reduction over the longer term.

By way of example to demonstrate how we manage risk within a shareholder fund (in this instance, LPFA), we recently undertook an exercise to review and strengthen LPFA's employer covenants in order to reduce liabilities immediately and over time. By carrying out sector-specific covenant checks and risk assessments, we identified areas of weakness in employer covenants and took steps to increase the fund's security by over £360 million.

## What does a shareholding in LPP Ltd provide?

- As a shareholder fund, The Royal County of Berkshire Pension Fund (Berkshire) will be able to play an active role in the governance of the partnership. This includes having a Non-executive Director (NED) seat on the LPP Ltd Board.
- Each shareholder fund signs up to a Sovereignty Agreement and shared principles around the partnership. These cover such provisions as confirming

that strategic decisions are taken locally, and guarantees the sovereignty of the administering authority.

- All shareholder NEDs participate under the principle of one share, one vote, irrespective of fund size. The other two shareholders will be London Pensions Fund Authority (LPFA) and Lancashire County Pension Fund (LCPF).
- As a shareholder Berkshire will have access to the full range of services offered by LPP including asset management, risk management and pension administration services.
- Berkshire's shareholding will be 33.3% (recurring).
- As a shareholder there are a number of "matters reserved" to shareholders, which in effect demonstrate control over the partnership. These include key decisions over the future of the partnership, remuneration policy and the strategic business plan.

### **How many other shareholders are there currently and how many expected?**

- As indicated above, there are currently two other shareholders, LCPF and LPFA. We are in early discussions with a couple of other funds and one group around how they might participate as investors in the pool (e.g. as investor clients and/or utilising LPP's pooling vehicles on a third-party operator basis) or shareholders. Ultimately it will be a decision of all current shareholders to expand the shareholding. If expansion were to occur after Berkshire becomes a shareholder Berkshire would participate in this decision.
- LPP meets all of the Government's criteria, with the current exception of the £25bn scale criteria. The intention is to grow LPP in the next 18 months and beyond in order to ensure it adequately satisfies Government's scale expectations. We have had positive discussions with Treasury in this regard and will be including a growth plan with our July submission to Government. This plan will reflect the important contribution that our pensions administration business makes to LPP, as well as where growth will come on the investment side. For example:
  - LPP currently provides pension administration services to six LGPS funds, six fire authorities and one police authority.
  - LPP is in the process of working with its partners to further develop a cross pool infrastructure platform with five LGPS funds involved. This will ultimately be open to all LGPS funds via their pool, and sit within the oversight of LPPs regulated investment manager – adding £1bn or more in assets under management.

### **What costs are involved with becoming a shareholder in LPP?**

- The cost of Berkshire's share will be £1. Berkshire shall then pay its proportionate share of LPPs ongoing costs. As a not-for-profit partnership, all

surpluses are either reinvested or redistributed to investors on a pro-rata basis; thus no dividend will be paid.

- **Organisation set-up costs:** Berkshire shall pay none of the historic organisational set-up costs with regards to the establishment of LPP Ltd. LCPF and LPFA have already spent £1.5m to create the organisation and have agreed to cover these costs in full. However, Berkshire will be required to pay for all their legal and other advisory/operational costs associated with joining the partnership.
- **Ongoing costs:** Costs are charged back to all customers, whether shareholders or not, on the basis of transparent prices designed to cover costs. A principle of “no cross subsidy” exists between both the business units themselves, and the individual customers.

On a day-to-day basis, effective controls and policies are in place to manage expenditure and costs, both on the investment and administration sides, with comprehensive reports being provided to shareholders on a regular basis. The increased size of LPP will enable economies of scale to be delivered and operational efficiencies to be rolled out across all shareholder funds. LPP is also engaging in a programme of cost reduction and base budget reviews.

- **Regulatory capital requirement:** Berkshire will not be required to contribute to the regulatory capital requirement for the FCA Operator, as LCPF and LPFA have already contributed sufficient to cover around £30bn of AUM. If and when this ceiling is reached, then Berkshire and other shareholder funds may be required to contribute to increase the regulatory capital.
- **Transition costs:** Shareholder funds will incur costs in relation to the transition of assets into the pools. Wherever possible, these transitions will be implemented via in-specie transfers and supported by external transition managers where appropriate. A detailed transition plan will be agreed with Berkshire in advance and anticipated costs identified as part of this exercise. This results in physical transition only taking place where there is a long term economic case to support this.

### What are the potential longer term cost savings?

- Longer term we anticipate significant potential for cost-savings for all shareholder funds, whether in relation to investment management expenses or pension administration expenses. Based on just LCPF’s and LPFA’s participation so far, we have identified potential savings of c.£30m in investment management fees over five years, c.£1m savings in pension administration costs in year 2 of operations and we anticipate improved investment outcomes of c.£20m-£30m from current levels over the next five years. We anticipate achieving greater savings with the addition of Berkshire and the opportunity to exploit further economies of scale across investment and administration operations.

We would emphasise that LPP has a cost-based model, whereby charges levied on participating funds are targeted to cover the costs incurred. Surpluses will be returned to the investors who contributed the excess on a pro-rata basis.

## **What are the benefits of LPP for Berkshire's stakeholders?**

### **Shareholders**

- Ownership rights.
- Participation in governance.
- Costs have already been incurred for both regulatory capital requirements and the establishment of LPP. These historic set up costs (£1.5m), regulatory capital plus working capital equates to around £17.5m and Berkshire will not need to contribute to this position.

### **Fund/Employers**

- A transparent and inclusive governance structure.
- Through LPP I, low cost access to a FCA regulated investment manager - consistent with Government's preferred pooling route.
- LPP is seeking to assist funds to achieve longer-term deficit reduction through:
  - Improved identification and management of fund liabilities enabling better targeted investment
  - Increased scale to enable investment in a broader range of asset classes (e.g. infrastructure)
  - High quality internal investment capabilities enabling internal management at a lower cost to the Fund than using external managers.
  - Greater purchasing power where external management/services continue to be most suitable.
- Professional and tailored risk management services to support deficit reduction and contribution rate stability.
- Market-leading and cost-effective Pensions Administration Services.
- Wide range of Risk Management Services.

### **Fund Members**

- LPP provides best-in-class pension administration services. It has the scale to leverage the best use of technology and to exert positive influence over partners.
- Transparent and engaged oversight and management of pensions.
- FCA regulation of LPP I provides assurance around standards of governance.
- LPP's risk management approach seeks to ensure that funds are managed on the basis of delivering long-term sustainability and deficit reduction.

## **Timeline for bringing Berkshire on board**

Our proposed timeline for bringing Berkshire on board will be to have all legal agreements concluded between Oct and Dec 2016, with an implementation date of no later than 1<sup>st</sup> April, 2018.

## **TUPE**

Under TUPE, relevant Q&A in the context of terms and conditions of employment and roles and responsibilities are:

- Can the Partnership lawfully change my terms and conditions of employment after a TUPE transfer?
  - Under TUPE, changes to terms and conditions of employment, which are related to the transfer, can only lawfully be made where the principal reason for them is an economic, technical or organisational reason (commonly referred to as an ETO reason) entailing changes in the workforce.

Other changes can, of course, be made in the normal manner, in the normal course of business, and not connected with the TUPE transfer, as they would have been had you stayed at Berkshire.

- Can the Partnership lawfully decide to re-organise my work post a TUPE transfer?
  - If it wishes to do so, the Partnership will be able to re-organise responsibilities and roles based on business needs, in exactly the same way that Berkshire would be able to do if it were still your employer.

The above are just a sample of questions that might arise in connection with a TUPE transfer. LPP's Human Resources team would be involved early in the process, working with RBWM's HR team, to ensure that Berkshire staff transferring across fully understood what was happening and were supported throughout.

## **Will everything transfer at once?**

There is an intention to implement both pension administration and asset management services on the same day 1<sup>st</sup> April 2018. Transfer of assets shall be managed via an asset transition plan.

The asset transition plan will set out the schedule for transferring assets across; it will be completed in stages, depending on the nature of the assets. Those that involve market transactions will be scheduled to minimise market impact and will be carried out by experienced transition managers with the goal being to ensure that the

asset transfers are achieved smoothly and with as little risk / cost exposure to the fund as possible. Full transition reports will be provided.

Note: by the time Berkshire's assets will be transferred across, LPP expects to have already completed the transition of the majority of LCPF's and LPFA's assets. This will lead to a significant body of practical experience being built up in house, and also ensure that any external parties we deploy are 'tried and trusted'.

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

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# Agenda Item 7

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# Agenda Item 8

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# Agenda Item 9

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