

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