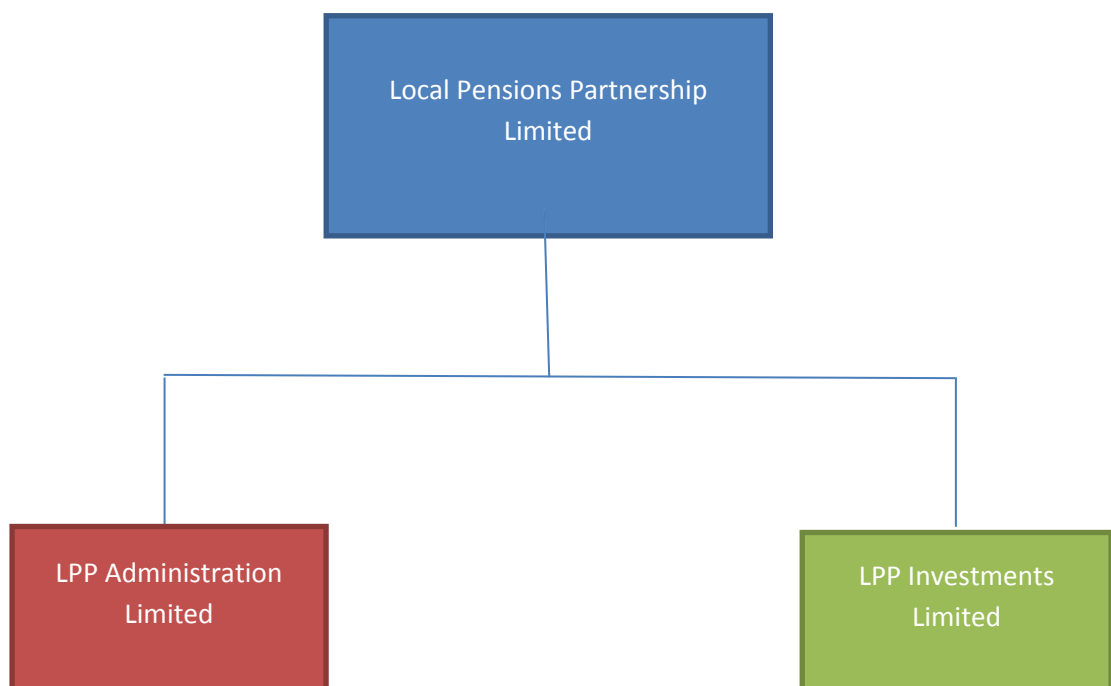


Local Pensions Partnership
Stakeholder Briefing June 2016.

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

ACS	Authorised Contractual Scheme – a tax transparent wrapper for pooling investments
Berkshire	The Royal County of Berkshire Pension Fund or The Royal County of Berkshire dependent on context
DCLG	The Department for Communities and Local Government
Lancashire	Lancashire County Council or Lancashire County Council Pension Fund depending on context
LCC	Lancashire County Council
LCPF	Lancashire County Council Pension Fund
LGPS	The Local Government Pension Scheme
LPFA	London Pension Fund Authority
LPP	Local Pensions Partnership a holding company for LPP Investments Ltd. and LPP Administration Ltd.
LPPA	LPP Administration Limited
LPPI	LPP Investments Limited
Project BOB	The project with Buckinghamshire and Oxfordshire County Councils to create a shared pensions service which was abandoned in December 2014
RBWM	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 assets¹.

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

¹ 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.

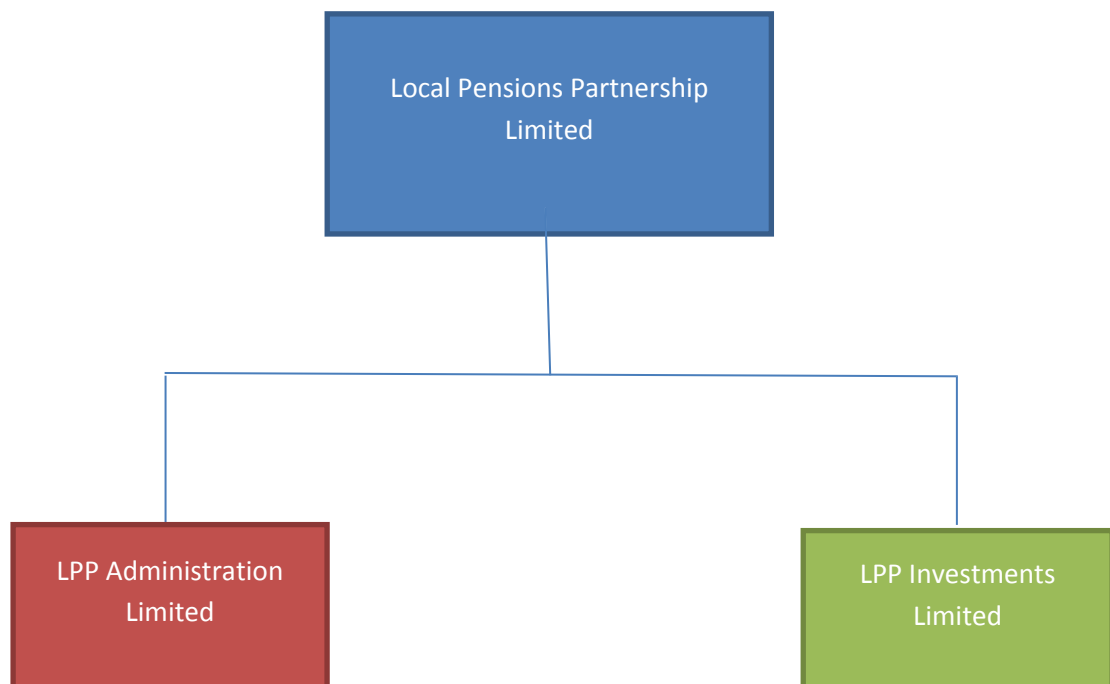
Proposal

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 directors²:

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

² 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 include³:

³ 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:



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

What is the background to LPP?

LPP Ltd launched on 8th 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 LPP's 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 LPP's 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 1st 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 1st 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'.