



Dear Mr Jones,

We, the Administering Authorities for the following Local Government Pension Scheme (LGPS) Funds, are pleased to have the opportunity to submit to the Department for Communities and Local Government (DCLG) our second joint pooling proposal: “*Border to Coast Pensions Partnership*” (BCPP) for your further consideration:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

Following the BCPP interim proposal in February, there has been a substantial volume of comprehensive work by officers, supported by external professional advisors, which has enabled Members of the partner Funds of BCPP to give their approval and continued committed support to this, the second more detailed submission proposal.

The initial BCPP submission in February 2016 was for a multi-asset pool, targeted at achieving improved net of cost performance across the pool. The submission was drafted on the basis of a “like-minded” ethos and shared beliefs. Building on this platform, this latest proposal has clarified and further developed BCPP’s proposition. However, it has not resulted in any major changes to the core proposal as outlined, which was:

- one equal vote per share holder, regardless of Fund size;
- equitable sharing of costs and benefits;
- asset allocation remains a Fund decision;
- belief in the need for appropriate regulated pooling structures to protect the interests of the partner Funds;

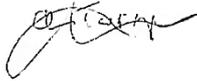
- clear differentiation between the roles of the individual bodies, which are based on three levels of control, oversight and operation:
  - Administering Authorities (Funds);
  - BCPP Joint Committee (Supervisory entity); and
  - BCPP the pool / operator (Executive Body) FCA regulated, wholly owned company;
- building of resilience within the current internal investment teams and development of the range of skills within them to enhance professional expertise, and breadth of asset coverage;
- building of internal investment capacity to facilitate access to internal asset management to those Funds that wish to take advantage of it; and
- collaboration in order to share resources and expertise across a range of services and to, wherever possible, use the enhanced buying power achievable through scale to deliver improved value for money.

In arriving at the final submission, the partner Funds of BCPP commissioned and relied on various external professional advice and analysis. Due to commercial restrictions, it is not possible to make the full reports public and, in the interests of transparency, the partner Funds of BCPP intend to publish this submission. Therefore, the full reports have not been included in this response. However, should government departments wish to review them on a confidential and non-reliance basis, they can be supplied. This advice has, where appropriate, been referenced throughout the submission.

Advice and analysis was received from the following firms:

- Deloitte: cost/benefit analysis (set up and ongoing) of different legal/governance structures;
- Eversheds: preliminary legal advice on governance structures;
- Squire Patton Boggs LLP: more detailed legal advice on governance structures and an FCA compliant legal structure;
- LGIM: transitional costs analysis;
- CEM Benchmarking: investment fees current and comparator analysis; and
- bfinance: review of assumptions on potential fee savings from future scale.

The partner Funds of BCPP are committed to meeting the challenging implementation deadlines set by government (i.e., having a fully regulated entity operational and ready to start the transition of assets by April 2018). However, as the next project phase (phase three) requires significant resources to be committed by the partner Funds, we look forward to your prompt consideration and support of the BCPP proposal. This will enable BCPP to continue to progress towards delivering within the deadlines as set. We will press forward with the establishment of the pool structures as soon as BCPP receives clearance from government in order to be able to meet these challenging deadlines.

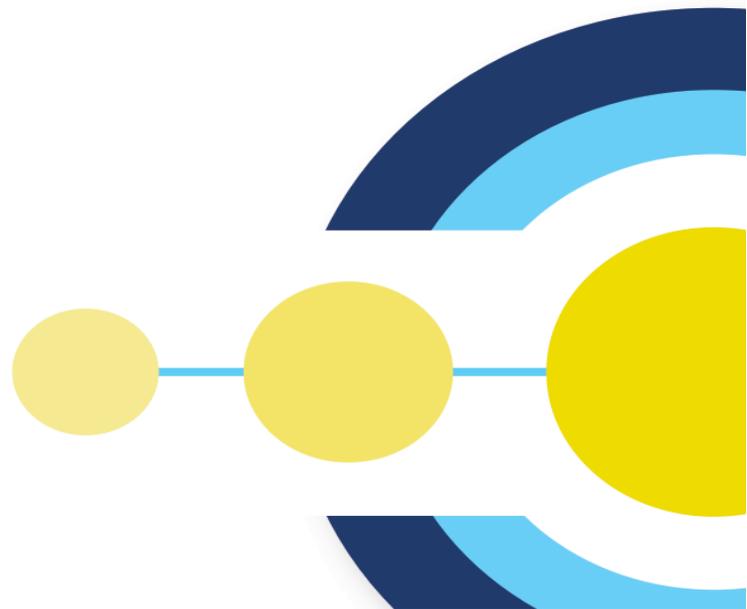
Bedfordshire Pension Fund	 Cllr. Doug McMurdo	 Bedfordshire Pension Fund
Cumbria Pension Fund	 Cllr. Melvyn Worth	 Cumbria County Council
Durham Pension Fund	 Cllr. Andy Turner	 Durham County Council
East Riding Pension Fund	 Cllr. John Holtby	 ERPFI East Riding Pension Fund
Lincolnshire Pension Fund	 Cllr. Mark Allan	 Lincolnshire COUNTY COUNCIL <i>Working for a better future</i>
North Yorkshire Pension Fund	 Cllr. John Weighell	 North Yorkshire County Council
Northumberland Pension Fund	 Cllr. Tony Reid	 NORTHUMBHERLAND Northumberland County Council
South Yorkshire Pension Fund	 Cllr. Sue Ellis	 SOUTH YORKSHIRE PENSIONS AUTHORITY
South Yorkshire Passenger Transport Pension Fund	 Cllr. Stephen Houghton	 Sheffield City Region COMBINED AUTHORITY
Surrey Pension Fund	 Cllr. Denise Le Gal	 SURREY PENSION FUND Surrey Pension Fund
Teesside Pension Fund	 Cllr. Steve Bloundele	 Teesside Pension Fund
Tyne and Wear Pension Fund	 Cllr. Eileen Leask	 Tyne and Wear Pension Fund Administered by South Tyneside Council
Warwickshire Pension Fund	 Cllr. Izzi Secombe	 WARWICKSHIRE pension fund





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## PENSIONS PARTNERSHIP



# BCPP PROPOSAL FOR ASSET POOLING IN THE LGPS

(SUBMISSION 2: 15<sup>TH</sup> JULY 2016)

Name of the Pool	<b>BORDER TO COAST PENSIONS PARTNERSHIP (BCPP)</b>
BCPP represents the administering authorities for the following Local Government Pension Scheme (LGPS) Funds (the “partner Funds”)	<ul style="list-style-type: none"> <li>➤ Bedfordshire Pension Fund</li> <li>➤ Cumbria Pension Fund</li> <li>➤ Durham Pension Fund</li> <li>➤ East Riding Pension Fund</li> <li>➤ Lincolnshire Pension Fund</li> <li>➤ North Yorkshire Pension Fund</li> <li>➤ Northumberland Pension Fund</li> <li>➤ South Yorkshire Pension Fund</li> <li>➤ South Yorkshire Passenger Transport Pension Fund</li> <li>➤ Surrey Pension Fund</li> <li>➤ Teesside Pension Fund</li> <li>➤ Tyne and Wear Pension Fund</li> <li>➤ Warwickshire Pension Fund</li> </ul>

## **CRITERION A: ASSET POOLS THAT ACHIEVE THE BENEFITS OF SCALE**

### **1. The size of the pool once fully operational.**

(a) Please state the total value of assets (£bn) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).	<b>£35.9bn</b>
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### **2. Assets which are proposed to be held outside the pool and the rationale for doing so.**

(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).	
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**ASSETS TO BE HELD OUTSIDE THE POOL - £7.5bn**

**ASSET TYPES:**

- As previously discussed and agreed with DCLG, in the interests of efficiency, externally managed passive investments held within life vehicles: £6.0bn<sup>1</sup>
- Other investments held within life vehicles e.g. Property, Diversified Growth Funds: £0.8bn<sup>1</sup>
- Cash: £0.4bn<sup>2</sup>
- Agriculture investments directly held by South Yorkshire Pensions Authority: £0.2bn<sup>3</sup>
- Assets held to support a bespoke liability-driven investment strategy held by South Yorkshire Passenger Transport Fund: £0.1bn<sup>4</sup>

**Notes:**

1. These assets will be managed and monitored by the Pool and may be transferred into the Pool at a later date if it is cost effective to do so. No new investments will be made outside of the Pool once the Pool is in a position to offer an equivalent alternative.
2. These assets will be held at the Fund level for operational purposes.
3. Consideration will be given to transferring these assets into the Pool if it is cost effective and appropriate to do so.
4. These assets are held to support a specific liability-driven investment strategy and will not be transferred into the Pool.

(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

Attached as ANNEX number  
**ANNEX 1**

### 3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.
- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.
- The composition of the supervisory body.

The partner Funds of BCPP have endorsed the governance, legal and operating structure set out below as the most appropriate, given the constituent make-up of the Pool.

Once government confirms final approval to the BCPP proposal, full and final approval will be sought through the individual administering authorities' governance structures. This will include arrangements to ensure the fiduciary responsibilities of the individual administration authorities (represented by their S151 and Monitoring Officers) are represented and reflected throughout the process to establish the BCPP pool and following creation within the future governance structures.

#### **OVERVIEW STRUCTURE**

Both the legal and cost/benefit advisors concluded that the most appropriate model, given the constituent make-up of the partner Funds of BCPP, is for a wholly owned company (TECKAL), operating a fully regulated structure under the Financial Conduct Authority (FCA). The regulated structure would comprise an Alternative Investment Fund Manager (AIFM), with an Authorised Contractual Scheme (ACS), probably a Qualified Investor Scheme (QIS). As the partner Funds are considered to be professional clients, this structure enables access to the more complex asset classes that are currently used by many of the partner Funds to house the quoted assets (excluding the external Life Funds e.g., passive mandates). Other legal structures would be used for the illiquid assets to ensure the most efficient structural, operational and tax treatment across the total portfolio.

In summary the high level governance structure proposed is:



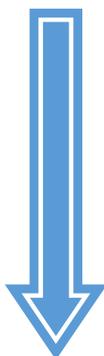
- **FUNDS:** partner Funds through the individual Pension Committees retain asset allocation decisions. To ensure efficient implementation by the Pool these decisions are to be exercised through a standard asset template structure. This is to be managed through a service level agreement between the Funds and the Pool and individual legally binding investment management contracts for each sub-fund invested in. This dual governance structure enhances accountability and scrutiny.



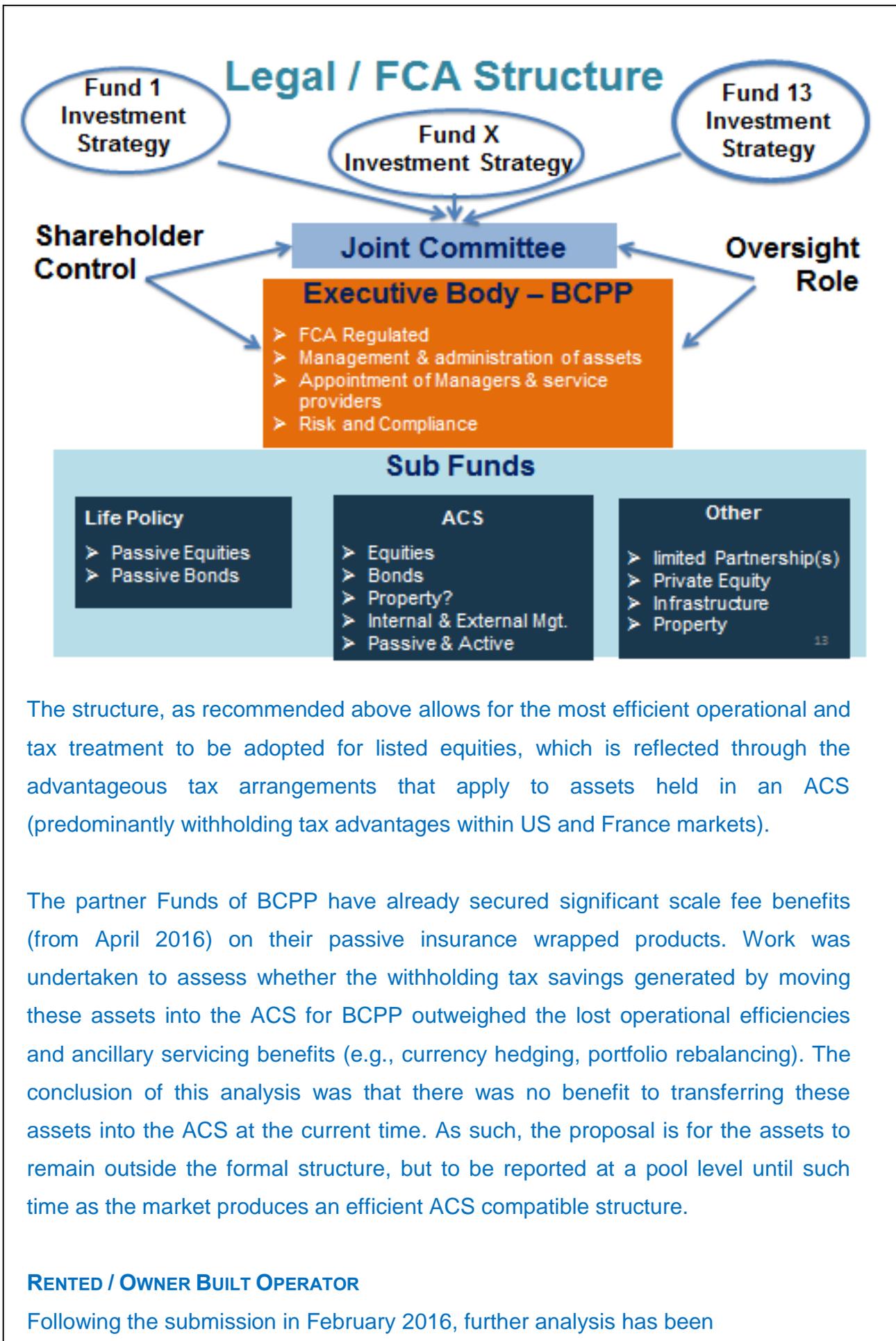
- **SUPERVISORY ENTITY:** The partner Funds through their representative on the Supervisory entity, i.e., the Joint Committee (based on the principle of one share, one vote), retain strategic direction and overall control of the company, including approval of the sub-fund structuring (i.e., the standard asset allocation template), setting remuneration levels, appointment of Executive and Non-Executive Directors, and approval of the annual budget and business plan. The Joint Committee may appoint independent advisors.



- **EXECUTIVE BODY:** The wholly owned company, i.e., BCPP (AFIM) controls all investment decision making (e.g., selection and monitoring of managers and investment products, shareholder voting, FCA compliance, tax monitoring, etc.). These functions must be performed by employees of the newly created regulated investment management company (AFIM) as many will require FCA approved person status.



- **SUB-FUNDS:** Assets are to be held in the most operationally and tax efficient manner which, following the detailed advice outlined above at a high level, is deemed to be:
  - An ACS for quoted assets;
  - Life Funds for externally managed passive mandates;
  - A mix of other regulated structures for alternatives as appropriate.



commissioned to assess the cost / benefit of this choice, the result being that, due to the scale of BCPP and resultant costs of the rented option the “build your own” Operator / ACS model was assessed to be the most cost effective operational framework for BCPP. In addition there is significant value in the “build your own” model for BCPP due to the intention to develop the internal management capacity (as detailed above).

### **ASSET OWNERSHIP**

Legal owner: BCPP – i.e. the depositary of the ACS (or other relevant vehicle)

Beneficial owner: Individual Funds (through the unitisation of assets)

- Pooled in an FCA Regulated Vehicle (ACS): Liquid assets, e.g., Equities, Bonds, totalling approximately 61% of current combined assets. It is currently being explored as to whether property allocations could be efficiently moved into the ACS post the implementation of the proposed tax changes.
- Alternative structures: e.g., Limited Partnerships, Unit trusts: Illiquid assets, e.g., Private Equity, Infrastructure, totalling approximately 22% of current combined assets.

Legal and Beneficial ownership stays with Funds for the medium term (estimated at three to five years)

- Life Funds: ownership to remain with the Partner Funds but to be managed and monitored via BCPP with the aim to move into BCPP when the market offers an efficient ACS option, totalling approximately 17% of current combined assets.

More detailed tax structuring advice will be obtained for each asset class as the transition process progresses to ensure that the most efficient treatment of structuring and housing each asset type is undertaken. The anticipated costs of acquiring this advice are contained in the estimates detailed below.

### **SUPERVISORY ENTITY / JOINT COMMITTEE**

The advisors also concluded that the most appropriate governance structure for the supervisory entity for BCPP is a Joint Committee (under the Local Government Act 1972) of the shareholder Funds.

This will operate on the principle of each shareholder Fund having an equal voting right, consistent with the initial guiding principles. The Joint Committee is expected to retain and exercise control through the establishment of a series of legal reserved matters which remain under the individual participating Funds' control through the Joint Committee.

The governance and operational model as proposed automatically establishes a very clearly defined segregation of decision making and control, both by the establishment of the reserved matters and by the fact that only "FCA approved persons" can make investment decisions in a regulated entity.

There will also be a separate prudentially regulated entity known as the depositary which will be responsible for safeguarding the assets and for oversight and regulatory compliance.

Please confirm that all participating administering authorities in the pool have signed up to the above.	<b>YES</b> BCPP partner Funds have approved the governance and legal structures as outlined for the purposes of this proposal.
If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.	<b>N/A</b>

**4. How the pool will operate, the work to be carried out internally and services to be hired from outside.**

Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.

(a) To operate in-house (for example if the pool will have internal investment management from inception):

- 1) **DIRECT MANAGEMENT OF THE FOLLOWING SUB-FUNDS:**
  - UK equities
  - Regional overseas equities
  - UK fixed income
  - Overseas fixed income
- 2) **SELECTION AND MONITORING OF EXTERNAL MANAGERS IN THE FOLLOWING SUB-FUNDS:**
  - UK equities
  - Regional overseas equities
  - Global equities
  - UK fixed income
  - Overseas fixed income
  - Diversified growth funds
  - Passive equities and fixed income
- 3) **SELECTION AND MONITORING OF POOLED, SEGREGATED AND DIRECT INVESTMENTS IN ALTERNATIVES**
- 4) **AFIM OF ONE OR MORE ALTERNATIVE INVESTMENT FUNDS**
- 5) **DETAILED REPORTING OF PERFORMANCE OF THE ACS / OTHER FUNDS TO CONSTITUENT FUNDS**

It is expected that all of these services will be provided internally at the formal inception of the Pool expected by April 2018.

(b) To procure externally (for example audit services):

- 1) **SERVICE PROVIDERS FOR THE REGULATED STRUCTURE INCLUDING:**
  - Depositary
  - Asset servicer
  - Auditor
  - Tax advisor
  - Legal services
- 2) **SERVICE PROVIDERS FOR THE AIFM INCLUDING:**
  - *HR/payroll*
  - Internal audit

- ***IT***
- Benchmarking
- Class actions
- ***Corporate governance advice***
- Transition management
- ***Procurement support***
- ***Legal services***
- ***Property services*** e.g. valuation, managing agents
- Foreign exchange monitoring
- Auditor
- Tax Advice

**3) PERFORMANCE AND RISK MEASUREMENT OF THE SUB-FUNDS**

**4) EXTERNAL ADVISERS**

It is expected that all of these services will be provided externally at the formal inception of the Pool expected in April 2018. Areas highlighted in ***bold / italics*** could potentially be partially or completely carried out internally over time.

Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the pool.

It is unlikely that there will be significant changes to the proposed provision of internal and external services but this is subject to the phase three (detailed project implementation plan sign off of the pooling structure), which will be confirmed post approval of the BCPP.

**5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.**

- (a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats).

Although professional advice has indicated that the establishment of the BCPP Pool is achievable by April 2018, and this is certainly the aim of all partner Funds, all acknowledge that this timetable is very challenging. Achieving this deadline is heavily dependent upon a number of factors outside the control of BCPP, including but not limited to:

- Implementation of draft LGPS Investment Regulations, enabling increased allocations to certain asset classes / structures.
- Formal Government approval of the BCPP pooling proposal by September 2016. The next phase of the project implementation plan requires the commitment of large amounts of resource by the partner Funds and Government have been explicit that these will not be recoverable by pools that they do not approve. As such, it is considered financially irresponsible by the partner Funds to progress further without formal approval.
- FCA Approval being granted.
- Finalisation of due diligence and more detailed cost benefit analysis.
- Final formal approval from Administering Authorities in accordance with internal governance processes.

<p>Confirmed</p> <p>If NO please state the expected date the structure will be in place and attach an ANNEX detailing the reasons for not being able to have the structure in place by 01.04.2018.</p>	<p><b>YES</b> (with above caveats)</p> <p><b>N/A</b></p>
<p>(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.</p>	<p><b>ANNEX 2</b></p>
<p>(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class</p>	<p><b>ANNEX 3</b></p>

(any values given should be as at 31.3.2015.)

- (d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.

**TOTAL VALUE OF ASSETS ESTIMATED TO BE HELD IN THE POOL AS AT:**

31.3.2021: £24.8bn (69.2% of total assets)

31.3.2024: £26.3bn (73.3% of total assets)

31.3.2027: £27.8bn (77.5% of total assets)

31.3.2030: £28.5bn (79.2% of total assets)

31.3.2033: £28.5bn (79.2% of total assets)

**ASSUMPTIONS:**

1. Investments currently held in life vehicles (18.8% of assets – 16.6% in passive equities and fixed income, 2.2% in other investments e.g. Property) are not transferred into the Pool.
2. No growth in asset values or changes in asset allocation.
3. Current investments in illiquid vehicles e.g. limited partnerships will be held outside the pool until they mature with all new investments being made within the pool. It is assumed that this process will take 10 years to complete.

**PLEASE NOTE:**

There are a number of investments, including Property, which are held at the individual fund level that have no defined maturity and, therefore, will not run-off naturally over time for reinvestment within the Pool. Whilst it is the intention for the vast majority of assets to be transferred into the Pool over the long term this will only be done where it is cost effective and operationally efficient to do so. For the purposes of this submission it has been assumed that these assets will transfer into the Pool within 10 years. A detailed transition planning process will commence post approval of BCPP which should provide more visibility.

## **CRITERION B: STRONG GOVERNANCE AND DECISION MAKING**

**1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.**

- a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.

### **SUPERVISORY ENTITY: JOINT COMMITTEE**

A Supervisory Body / Shareholder Committee will be established to oversee the operations of the Pool. The legal structure will be a Joint Committee, hosted by one of the BCPP administering authorities. Membership will comprise the Pensions Committee Chairs (or named substitutes) of each of the 12 BCPP members, each with equal voting rights. The Chair of the Joint Committee (non-executive) will be elected annually by its members.

The Joint Committee's purpose is for collective representation of the interests of the administering authorities' pensions committees / shareholders of the BCPP, and to provide a clear democratic link between the pensions committees and the Pool.

It will have several key roles delegated to it from the Funds as the shareholders, including:

- appointing to the BCPP Board of Directors,
- holding the Pool to account with regard to the effective and efficient implementation of the BCPP partner Funds' investment strategies,
- recommending changes in governance and/or operations of the Pool to improve the effectiveness of the Pool as the service deliverer to BCPP partner Funds,
- being the ultimate arbiter in the event of disputes, and
- making any other recommendations it considers appropriate as the conduit between the administering authorities and the Pool.

Section B3c provides a list of the decisions to be made by this supervisory body and the rationale in each case.

Supporting the Joint Committee will be an Officer Operations Group whose role will be to advise and make recommendations to the Joint Committee, and carry out such instructions as the Joint Committee may make. Membership will comprise officers from each of the partner Funds of BCPP.

The BCPP Pool itself will be a company, wholly owned by the participating administering authorities (TECKAL company) with a board of directors, comprising executive directors, non-executive directors and an independent chairman. It is anticipated that the Chief Investment Officer will be the chair of the investment panel. As an FCA regulated entity, it will employ appropriate persons required to carry out investment activity, both in terms of internal and external investment management.

The internal investment management function will be kept entirely separate from company management. This is to prevent a potential conflict of interest at a later date when the decision as to whether the Pool invests in an internal or external sub-fund may be made by the Pool.

The shareholders of the Pool will be the 12 BCPP members, each with equal shareholding and voting rights. It is anticipated that any decision will require a majority vote (at least seven of the 12 shareholder Funds). The shareholding is 12 rather than 13 as the South Yorkshire Transport Fund is to delegate all investment activities to the South Yorkshire Pension Fund and, while their assets will transfer into the pool, they will not be acquiring a shareholding in BCPP.

Throughout the project implementation stage to formally establish and constitute the Joint Committee, consideration will be given to the creation of an observer post for a Scheme Member representative from the partner Funds' membership. Due to the core principle of each shareholder Fund having an equal vote, the status of this seat would be as a non-voting observer.

Each BCPP member will be responsible for providing a detailed set of instructions to the Pool, covering all aspects of its investment strategy. The Pool will respond by describing how it intends to implement each strategy, including options and a

recommendation. Each BCPP partner Fund will then be required to either sign off the strategy or follow an escalation process. In the event of an amendment to the strategy, the same sign off process will be followed. This process will be encapsulated in the terms of reference of the Joint Committee / agreements between the partner Funds and BCPP.

In advance of the creation of the Pool entity and the establishment of the Joint Committee and Officer Operations Group, the Pensions Committees of the 12 BCPP partner Funds have adopted a Memorandum of Understanding (MoU) which sets out the working arrangements between them (attached as Annex 4). This document includes the terms of reference for the Member Steering Group (it is envisaged this will become the Joint Committee when the formal entity is enacted) and the Officer Operations Group, being the two informal bodies which will be working together to establish the BCPP Pool. Where appropriate, these terms of reference will be adapted to suit the subsequent formal bodies.

b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).

Each pensions committee has fiduciary responsibility over the management of its Fund. It is locally accountable to taxpayers, scheme members and scheme employers and therefore must hold the Pool to account in terms of the implementation of the investment strategy in both performance and cost.

The role of each local Pension Board will be to assist its Pensions Committee to ensure the effective and efficient governance and administrative arrangements of the Pool, and those between the Pensions Committee and the Pool, and advise Pensions Committees on their effectiveness and whether they are in the best interests of taxpayers, scheme members and scheme employers.

To maintain the robustness of local accountability and decision making, investment consultants and/or advisers may be required to support each Pensions Committee to advise on the effectiveness and efficiency with which the Pool is implementing

the investment strategy, including the link to individual fund liabilities. They may also be required to advise the Joint Committee, as the decision making body responsible for scrutinising the activities of the Pool, and the Officer Operations Group which supports it, in terms of the governance, structure and operational effectiveness of the Pool.

Any advice commissioned by the host authority of the Joint Committee would be arranged in such a way that all BCPP partner Funds could rely on the advice.

The external auditor will report on the annual accounts and, if appropriate, may be engaged to undertake further work on the Pool.

The depositary will be responsible for the safeguarding of the assets of the pool delegating, where appropriate, to a custodian, ensuring the assets are held independently of the AFIM, and monitoring compliance with the regulatory framework including ensuring that accounting records are reconciled to third party records, and investors' entitlements are correctly calculated.

A performance measurement services company will be required to provide objective measurement of the sub-funds.

**2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.**

(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.

Supporting the arrangements described in sections B1a and B1b, each administering authority will have a formal agreement with the Pool setting out the responsibilities and accountabilities of each party, much the same as currently exists between the partner Funds / administering authorities and external investment managers. Each of the 12 formal agreements will be identical,

reflecting the consistent approach the Pool will adopt in carrying out the role of manager of each BCPP partner Funds assets. These agreements will also make clear where accountability and responsibilities lay on day-to-day operational matters, covering such topics as provision of information, performance targets on reporting, costs, etc.

Each formal agreement will be supplemented with a standard template Investment Management Agreement which will include a detailed set of instructions describing the investment strategy of each BCPP partner Fund, covering the asset allocation decisions, performance targets, benchmarks, style, risk and other appropriate criteria.

There will be an application form for each pooled fund, plus the shareholders agreement. There may also be an investment management agreement (IMA) if there are other investment services being provided.

Insurance cover will be carried by the Pool, required in the event that the Pool either breaches the IMA or fails to implement the investment strategy to appropriate standards.

**IN SUMMARY:**

- Each fund will have a contract with the pool (AFIM) and will exercise control of its relationship through that, including a set of shareholder reserved matters.
- Each Fund will also have a voting share in the pool (AFIM) and will enter into a shareholder agreement through which the activities of the pool (AFIM) will be monitored and where appropriate directed.
- Control is exercised by these mechanisms and the individual ownership of the participant Funds.
- The shareholders will delegate to their representatives on the Joint Committee exercise of these rights and thus their control is exercised in this manner rather than by direct control from the Joint Committee.
- The Joint Committee will represent the views of the partner / shareholder funds and decision making will be exercised on a majority vote.

<p>(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.</p>	<p>N/A</p>
<p>No agreement currently exists between the two parties other than the MoU as detailed above. The intention is that this document will be developed as BCPP progresses through phase three of the implementation plan. However, there is an understanding between the partner Funds that this will be a development from the current agreements of principle as detailed throughout the body of this submission.</p>	
<p>(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.</p>	
<p>Control over reporting back to individual funds will be exercised through their individual contracts between the partner Funds and the Pool.</p> <p>Where there is an overall concern, the expectation is that the shareholders, acting through their representative body (the Joint Committee), will take collective action as owners.</p> <p>The submission costing for BCPP has accommodated the provision in the staffing structures of dedicated client liaison staff. This is to ensure that regular attendance at partner Funds Committees may be supported to ensure that the wider membership of the Committee receives regular reporting of information and direct access to question Pool (AFIM) representatives on performance, etc.</p>	

**3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.**

(a) Please list the decisions that will be made by the administering authorities (Funds) and the rationale underpinning this.

FUND DECISIONS	RATIONALE
Setting of strategic asset allocation and the decision on which sub-funds to invest in.	<p>The current and proposed draft investment regulations require administering authorities to formulate an investment strategy which must include investing in a wide variety of investments.</p> <p>This is fund specific and is usually set in the light of the liabilities of each fund.</p>
Monitoring of the strategic asset allocation (with assistance from the Pool).	<p>The current and proposed draft investment regulations require administering authorities to formulate an investment strategy which must include investing in a wide variety of investments.</p> <p>The administering authority can only be certain it is fulfilling this role if it is monitoring the asset allocation.</p>
Tactical adjustments to the strategic asset allocation.	Administering authorities should be able to make tactical adjustments to the Strategic Asset Allocation to take advantage of market opportunities. These will be implemented by the Pool.
Decision on internal or external investment management.	At the current time this is considered by the administering authorities within BCPP to be part of the strategic asset allocation decision making. Over time, as the regulated internal manager within the pool (AFIM) becomes established with an assessable track record this may become a Pool decision.
Decision on active or passive management.	This is considered to be part of the strategic asset allocation decision making.
Appointment of performance measurement provider for	It is important for the individual funds to have independent verification of the performance of

the administering authority.	their own assets as managed by the pool on their behalf.
Appointment of external advisors to the administering authority.	The current and proposed draft investment regulations require administering authorities to formulate an investment strategy and to take proper advice.
Discretion to request votes to be cast in a certain way.	The current and proposed draft investment regulations require administering authorities to formulate an investment strategy which includes the policy on the exercise of rights (including voting rights). This can only truly be exercised if each administering authority has discretion on which way to vote.
Appointment of Custodian for the assets in run-off and for any assets to be held outside the Pool in the name of the administering authority.	To ensure appropriate control is maintained by the individual funds over the assets still under their responsibility.
Appointment of transition manager and transition performance measurer.	Any transition will need to take assets out from the administering authorities and transition them into the new investment vehicles. Therefore, the appointment will have to be a joint process, between the administering funds and the Pool (AFIM).
Setting of Statement of Investment Principles / Investment Strategy Statement, including the restrictions on particular assets or types of assets.	The current and proposed draft investment regulations require administering authorities to formulate an investment strategy which must include investing in a wide variety of investments. There is also a requirement to assess the suitability of particular investments. This may include restrictions on assets.
Setting of the policy on how social, environmental or corporate governance considerations are taken into	The current and proposed draft investment regulations require the administering authority to set an investment strategy, which includes a policy on social, environment and governance

account in the selection, non-selection, retention and realisation of investments.	<p>issues.</p> <p>Please also see question B6.</p>
Where appropriate decisions on local investments.	<p>This is part of the asset allocation of individual funds. Decisions to invest locally will only be taken on such investments where the risk/return characteristics are suitable, where clear value for money can be demonstrated but the investment is not considered suitable for the Pool to invest in.</p>
Which Pool to invest in.	<p>This is an individual administering authority decision. The proposed draft investment regulations require administering authorities to set out their approach to pooling.</p>
The governance structure of the Pool.	<p>This is a decision for individual administering authorities and needs to be taken before the Pool is formally established. This includes any future changes to the governance structure.</p> <p>While there can only be one governance structure for the Pool each administering authority will need to agree to this.</p>
The company structures to be used to deliver the pooling solution.	<p>This is a decision for individual administering authorities and needs to be taken before the Pool is formally established. This includes any future changes to the company structure.</p> <p>While there can only be one legal structure for the Pool each administering authority will need to agree to this.</p>
Decisions on risk appetite and approach to managing risk.	<p>The current and proposed draft investment regulations require administering authorities to formulate an investment strategy which must include the approach to risk.</p>

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

<b>BCPP POOL DECISIONS (EXECUTIVE BODY)</b>	<b>RATIONALE</b>
Implementation of individual funds investment strategy through the range of sub-funds available.	This is an operational/implementation issue and therefore the Pool's responsibility.
Detailed reporting of sub-fund performance to funds.	The Pool (AFIM) will be required to monitor the performance of each individual sub-fund and report this to the funds.
Development of new sub-funds to meet demand as appropriate.	The Pool (AFIM) will need to provide this to respond to investor demand.
Appointment, oversight, and dismissal of external managers.	This is an operational/implementation issue and therefore the Pool's (AFIM's) responsibility.
Buying and selling of investments by the internal team.	This is an operational/implementation issue and therefore, the Pool's (AFIM's) responsibility.
Purchase of systems and support within an agreed budget and business plan.	This is an operational/implementation issue and therefore the Pool's responsibility.
Development of the sub-fund prospectus to be offered. Final sign off is needed by the investors in each sub-fund, and the FCA must review the prospectus for appropriateness. Each prospectus will include scale, investment controls and restrictions, benchmarks, mechanisms for pricing.	This is an operational/implementation issue and therefore, the Pool's responsibility.

<p>Appointment and oversight of external advisors to the Pool.</p>	<p>This is an operational/implementation issue and therefore, the Pool's responsibility. It will be up to the Pool to determine the external advice it needs in line with the agreed budget and business plan.</p>
<p>Appointment and oversight of the depository, custodian and administrator.</p>	<p>This is an operational/implementation issue and therefore, the Pool's (AFIM's) responsibility. The depository will select and appoint any custodians.</p>
<p>Change of weights allocations to individual managers within a sub-fund.</p>	<p>This is an operational/implementation issue and therefore the Pool's responsibility (within any limits set in the prospectus).</p>
<p>Appointment of transition manager and transition performance measurer.</p>	<p>Any transition will need to take assets out from the administering authorities and transition them into the new investment vehicles. Therefore, the appointment will have to be joint process between the administering authorities and the Pool (AFIM).</p>
<p>Development and implementation of an ESG/RI investment policy at pool level which is consistent with the individual funds policies.</p>	<p>It will be advantageous to have the Pool take a collective approach to this, albeit the partner Funds will also have responsibilities in these areas.</p> <p>The implementation will be an operational issue.</p> <p>Please also see question B6.</p>
<p>Development and implementation of a voting policy, which is consistent the individual funds voting policies.</p>	<p>To work efficiently and to gain the benefits of voting holdings at scale, it will be advantageous to have the Pool take a collective approach to this, albeit the partner Funds will also have responsibilities in these areas.</p> <p>The shares will be in the legal ownership of</p>

	BCPP (i.e. the depositary) and therefore implementation of voting will be an operational issue of the Pool.
Appointment of performance measurer for the Pool.	The Pool will be required to monitor the performance of each individual sub-fund and report this to the funds.
Appointment of all external service providers for the Pool, including but not limited to: <ul style="list-style-type: none"> <li>➤ Class action lawyers</li> <li>➤ FX monitoring</li> <li>➤ Transaction cost monitoring</li> <li>➤ Legal advisors</li> <li>➤ Accountants (for AAF01/06 report)</li> </ul>	This is an operational issue for the Pool.
Prepare Annual Business plan including staffing, IT support, etc.	This is a Pool management issue.
Develop and propose budgets, fee models and the overall cost base and apportionment.	This is an operational issue for the Pool.
Proposal of executive pay through the remuneration policy and remuneration committee.	This is regarded as best practice.
Propose/develop proposals for significant transactions (e.g., mergers and acquisitions).	The senior management of the Pool will be in the best position to review any proposals.
Manage the process for any new entrants to BCPP.	This is an operational issue for the Pool.
Manage the process for the	This is an operational issue for the Pool.

exit of any fund, including notice period.	
Recruitment and retention of staff.	This is an operational issue for the Pool.
Proposals of future investment vehicles to be used once the Pool is up and running.	This is an operational issue for the Pool.
Development and maintenance of conflicts of interest policy.	This is an operational issue for the Pool.
Determine Risk Register.	This is a management control issue.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

<b>BCPP SUPERVISORY BODY (JOINT COMMITTEE) DECISIONS</b>	<b>RATIONALE</b>
Setting terms of reference for the Joint Committee and shareholder agreement.	To protect the interests of the shareholders
Final sign off on the collective investment vehicles to be used.	Shareholder responsibility.
Agreement to the range of sub-funds to be offered to funds.	The range of sub-funds has to meet the needs of the investors in regards to their asset allocation requirements.
Sign off of FCA approved prospectus for each individual sub-fund, including scale, investment controls and restrictions, benchmarks, mechanisms for pricing.	Investor responsibility.
Deletion/removal of sub-	Investor responsibility.

funds available.	
Appointment and removal of Directors, including non-executive directors of BCPP.	Shareholder responsibility.
Approve Annual Business plan.	Shareholder responsibility.
Approve budgets, fee models and the overall cost base and cost apportionment.	Shareholder responsibility.
Approval of executive pay (usually through the remuneration policy).	Shareholder responsibility.
Approve capital requirements.	Shareholder responsibility.
Approve significant transactions (e.g. mergers and acquisitions).	Shareholder responsibility.
Approve any new entrants to BCPP and the terms of entry.	Shareholder responsibility.
Approve/Determine exit terms, including notice period and exit treatment.	Shareholder responsibility.
Approval of voting policy.	Investor responsibility.
Approval of ESG/RI policy.	Investor responsibility.
Agreement to the sign off of a transition plan for assets.	These costs will ultimately be picked up by the funds therefore is it both an investor and shareholder responsibility.
Decision on when internal v external decision passes to the Pool.	This will need to be agreed by all funds through the Joint Committee.
Approval of Conflict of Interest policy.	Shareholder and investor process.
Review of risk register.	Shareholder responsibility.
Appointment of Auditor.	Shareholder responsibility.

#### 4. The shared objectives for the pool and any policies that are to be agreed between participants.

(a) Please set out below the shared objectives for the pool.

Due to the “like minded beliefs” that have been pivotal throughout the development of the BCPP proposal, the key objectives that this more detailed proposal are unchanged from the February 2016 submission.

### **BCPP SHARED OBJECTIVES**

#### **ASSET STRATEGY**

- Asset allocation strategy is an individual partner Fund (not a Pool) decision;
- To drive through efficiencies and work effectively, partner Funds must have a complementary investment ethos, risk appetite and strategy;
- The Pool structure should be capable of complementing a bespoke investment strategy for scheme employers with common characteristics; and
- A Responsible Investor / Shareholder Voting Policy will be agreed for operation by the Pool, focusing on encouraging high levels of corporate governance by the companies owned. This will seek to maximise shareholder value by focusing on the long term risk adjusted reward of the assets held by the Pool. The policy will seek to implement and further develop industry best practice. Where possible, this will be undertaken by utilising the combined voting power of the LGPS (e.g. through organisations such as LAPFF).

#### **GOVERNANCE / VEHICLE STRUCTURE**

- The pooling proposal should address the Government’s aims of ability to achieve scale, improved governance, enhance capability and capacity to deliver infrastructure and fee savings;
- The partner Funds should retain a pivotal role in the governance of any

pooled structure chosen;

- Any new structures should offer opportunities for savings, while retaining or improving on the Funds' performance net of fees / costs;
- The proposal should expand internal investment management capability and increase resilience for all partner Funds;
- The structure chosen must be sufficiently flexible to ensure assets are only transferred into any vehicle when/if it is cost effective, tax efficient and managerially effective to do so across the Pool;
- There must be a specific solution to infrastructure investing; and
- To ensure appropriate risk controls are in place to protect partner Fund assets, an appropriate regulated entity should be at the core of the proposed structure. The tax transparent vehicle should be an ACS due to the Government's current preference for this type of vehicle as it is housed within the UK.

#### **SHARING RESOURCE IMPROVING RESILIENCE**

- The solution should provide additional resilience and capacity over and above current investment structures;
- The solution will seek to provide internal shared resource to progress more proactive management of liability and cash flows;
- Activities will be distributed across the partner organisations to improve performance through creating centres of excellence and improving resilience through larger teams; and
- Core to the creation of the BCPP is enhancing resilience across all partner Funds and developing additional capacity for internal investment. As such, the new entity should be situated in a single location which ensures:
  - there is a base proposition that ensures continuity of performance for the currently internally managed Funds, i.e., sufficient transitioning staff will move to the new location, discussions related to this are ongoing;
  - BCPP is sustainable and capable of growth going forward i.e., it requires a location with a vibrant financial / commercial market to support future recruitment; and
  - that it is accessible to all Partner Funds i.e., on major transport routes (road and rail).

(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

Currently, no formal policies have been agreed between the partner Funds of BCPP. It is planned that these will be developed throughout phase three of the project plan. The types of policies to be created may include:

- Shareholder Agreement;
- Formal service agreements;
- Investment management agreements;
- Oversight body membership policy (appointment and termination of membership);
- Voting policy (relating to shareholder rights);
- Change of Pool membership policy (LGPS funds leaving/joining BCPP);
- RI/ESG policies;
- Cost allocation policy;
- Conflict of interest policy;
- Communications policy (governing how BCPP and its partner Funds will share information);
- Benchmarking policy (how the BCPP will monitor and report performance, and compare with similar organisations, including the other LGPS Pools);
- HR policies covering how the BCPP recruits, develops, manages and retains employees;
- Remuneration policy;
- Compliance manual;
- Risk management policy;
- Dispute resolution policy;
- Breaches policy;
- Money laundering/bribery/corruption policy;
- Service agreements between BCPP and partner Funds.
- Each pooled fund (including the ACS) set up by BCPP (AFIM) will be governed by a prospectus which in the case of the ACS will be approved

by the FCA and the depositary and agreed by the Joint Committee. This will include details such as the investment process, return targets,

<p>benchmarks, risk controls and investment restrictions.</p> <p>➤ Policies as required by regulation e.g. leverage, markets trading, liquidity, fair value, adverse markets, best execution, etc.</p>	
<p>(c) If available please attach as an ANNEX any draft or agreed policies already in place.</p>	<p>Attached as ANNEX number</p> <p><b>N/A</b></p>

**5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.**

<p>(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u></p>	<p>Implementation costs / Ongoing costs</p> <p>See C4(a) for full cost details</p>
<p>(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.</p>	<p><b>ANNEX 5</b></p>

**6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.**

<p>(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.</p>	
<p>Confirmed</p>	<p><b>YES</b></p> <p><b>ANNEX 6</b></p> <p>BCPP Responsible</p>

	<p>Investment Approach. The BCPP Responsible Investment Approach addresses RI, ESG and Stewardship issues.</p>
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**7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.**

(a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

Confirmed	<b>YES</b>
If no please attach an ANNEX setting out how the pool will report publically on its performance.	<b>N/A</b>

**8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.**

(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

The Funds in BCPP currently use a wide range of benchmarks and performance measures and it is envisaged that these will be consolidated, extended and adapted to meet the needs of both the partner Funds and BCPP for robust performance measurement across a range of factors.

**To ASSESS THE GOVERNANCE AND PERFORMANCE OF THE FUNDS:**

There are a number of benchmarks currently used by the partner Funds of BCPP to monitor their own governance and performance. It is intended that these will

continue to be used and developed to monitor and improve the performance of both the individual partner Funds and BCPP (pool). Currently these include:

- Annual Governance audits: Internal Audit
- Annual Governance audits: External Audit
- Internal Self-Assessment
- CEM benchmarking
- SF3 Information
- Scheme Advisory Board KPIs

#### **To ASSESS THE GOVERNANCE AND PERFORMANCE OF THE POOL:**

The partner Funds in BCPP all exhibit strong governance, benchmarking and performance measurement culture (“likeminded”). To ensure the pool continues to exhibit the culture of the founding partners this will be developed throughout the creation of BCPP. This will help ensure the pool is able to deliver the requirement of improved net of costs/fees performance.

To do this BCPP intends to monitor against a range of benchmarks and performance measures including:

- Annual Governance audits – Internal Audit
- Annual Governance audits – External Audit
- Internal Self-Assessment
- Comparative data from other LGPS pooling arrangements
- Pool costs versus savings as a Value For Money measure
- Net of costs performance from each sub-fund versus appropriate benchmark information
- Individual investment benchmarks (industry standards)
- Currency Audit
- Transaction cost monitoring and reporting
- Value of late settlements as % of monthly trades
- Value of Outstanding Settlements as % of average monthly trades
- Value of late income as % of monthly income
- Value of outstanding income as % of average monthly income
- Value of tax outstanding as % of average monthly tax
- Number of tax reclaims outstanding as percentage of average monthly tax

- Number of domestic meetings voted as % of total meetings
- Number of foreign meetings voted as % of total meeting
- Foreign Exchange cost in basis points
- Credit interest rate % for GBP
- Credit interest rate % for EUR
- Credit interest rate % for USD
- Accounting timeliness

## **CRITERION C: REDUCED COSTS AND EXCELLENT VALUE FOR MONEY**

### **1. A fully transparent assessment of investment costs and fees as at 31 March 2013.**

(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	<b>£50.8m</b>
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	<b>£103.1m</b>
(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.	
<p><b>ASSUMPTIONS:</b></p> <p>1(a) Includes the internal costs of investment management and the management and performance fees paid to external managers for investment mandates.</p> <p>It does not include the management or performance fees of pooled investments that do not form part of an explicit investment mandate e.g. investment in a private equity limited partnership.</p> <p>1(b) Includes the internal costs of investment management, management and performance fees paid to external managers for investment mandates, and the management fees paid in pooled investments. It does not include the performance fees of pooled investments.</p>	

### **2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.**

(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report	<b>£113.0m</b>
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and Accounts for that year ending 31.03.2015.	
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	<b>£126.7m</b>
(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.	
<p><b>ASSUMPTIONS:</b></p> <p>2(a) Includes the internal costs of investment management, the management and performance fees paid to external managers for investment mandates, and the management and performance fees of pooled investments.</p> <p><b>PLEASE NOTE:</b></p> <p>There was a change in the CIPFA guidance on accounting for investment costs for the 2014/15 financial year. As a result, the costs disclosed in the Annual Report and Accounts for the year ended 31<sup>st</sup> March 2015 are not comparable to the costs disclosed for the year ended 31<sup>st</sup> March 2013. In addition there is no consistency in 2a for the figures for 2014/15 for each individual Funds as some Funds implemented the guidance and others did not.</p> <p>The data provided by CEM Benchmarking disclosed in 1(b) and 2(b) above has been calculated on a consistent basis and is, therefore, directly comparable. It should be noted, however, that the information from CEM does not include all expenses, performance fees for the second layer of fees within fund-of-funds and transaction costs which are all required to be disclosed under the CIPFA Guidance in place for 2014/15.</p>	

### 3. A detailed estimate of savings over the next 15 years.

- (a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at:

Scenario A	Scenario B
31.3.2021: £27.0m	31.3.2021: £14.7m
31.3.2024: £38.7m	31.3.2024: £21.0m
31.3.2027: £51.0m	31.3.2027: £27.2m
31.3.2030: £55.2m	31.3.2030: £29.3m
31.3.2033: £55.2m	31.3.2033: £29.3m

(b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

**ASSUMPTIONS:**

- Gross cost savings excluding transition costs and setup and ongoing costs of pooled structure.
- Passive investments: circa 3bps p.a. saving secured from 1 April 2016.
- Active external equities and fixed income:
  - Scenario A (Best Case): 10bps p.a.
  - Scenario B (Worst Case): 5bps p.a.
- Alternatives:
  - Scenario A (Best Case): 50bps p.a. on new investments
  - Scenario B (Worst Case): 25bps p.a. on new investments

Cost savings estimates are based on current market knowledge and assumptions have been soft market validated by an external firm.

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.

N/A

**4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.**

(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

**SET UP AND ONGOING COSTS OF BCPP:**

Estimates of set up, transition, and ongoing costs are included in the following table. As can be seen from the table, transition arrangements account for the largest proportion of costs expected to be incurred. Therefore, it is requested that Government consider ways of mitigating this cost to the Pool such as, for example, providing stamp duty relief on the transition of UK assets.

In addition to the above costs, it is estimated that regulatory capital of €10m will be required, which will be in the form of permanent share capital.

These costs have been developed with advice from external cost / benefit consultant, Deloitte.

Estimated breakeven is achieved:

- Scenario A: Year ended 31<sup>st</sup> March 2020 (within 2 years)
- Scenario B: Year ended 31<sup>st</sup> March 2023 (within 5 years)

	Scenario A	Scenario B	Assumptions
	Low	High	
	Estimate	Estimate	
	(£000)	(£000)	
<b>Set up costs (pre April 2018)</b>			
<b>Operator</b>			
Staff	850	1,800	Senior executives and project management
Legal and professional	750	1,200	
Procurement	175	250	
IT and infrastructure	250	500	
Regulatory costs	5	25	
	2,030	3,775	
<b>ACS</b>			
Legal and professional	250	380	
<b>Total set up costs</b>	<b>2,280</b>	<b>4,155</b>	
<b>Transition costs</b>	<b>12,848</b>	<b>35,508</b>	
<b>Ongoing costs (post April 2018)</b>			
<b>Operator</b>			
Staff	3,000	4,500	35 – 55 investment and operational staff
Legal and professional	230	410	
IT and infrastructure	900	1,300	Predominantly premises and IT
Regulatory costs	200	450	
Other costs	270	640	
	4,600	7,300	

<b>Authorised Contractual Scheme</b>			
Legal and professional	150	300	
Asset servicer fees	3,500	4,500	2 – 2.5bps of ACS assets
Potential tax savings	(2,500)	(2,000)	Estimate based on current holdings
	1,150	2,800	
Reduction in partner Fund costs	(3,956)	(3,956)	
<b>Total ongoing costs</b>	<b>1,794</b>	<b>6,144</b>	
<p>(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).</p>			
SEE TABLE ABOVE			
<p>(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.</p>		N/A	
<p>(d) Please explain how the implementation costs will be met by the participating authorities.</p>			
<p>It is core to BCPP beliefs that costs and benefits should be shared equitably amongst participants.</p> <p><b>INITIAL SET UP COSTS:</b></p> <ul style="list-style-type: none"> <li>➤ To be split equally in line with each of the Funds' shareholding in the underlying company.</li> </ul>			

#### **ONGOING COSTS WILL BE DIVIDED INTO:**

- Corporate level costs to be shared equally according to shareholding e.g. CEO, CIO, Compliance Officer, regulatory costs etc.
- Sub-fund level costs including external investment management fees or internal investment management costs, to be shared according to assets in a sub-fund.

#### **TRANSITION COSTS:**

- Initial transition costs (upon establishment of the pool) to be shared based on the value of each of the partner Funds' assets transferring into each sub-fund.
- Costs of future transitions will be borne by the partner Fund accessing the sub-fund.

### **5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.**

- (a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.

BCPP has commissioned external advice in the form of cost benefit analysis from Deloitte and an estimate of transition costs from LGIM (Legal and General Investment Management). These together give an initial range of estimates for the implementation (including transition) costs. These estimates are set out in the response to the questions above.

The estimates will be subject to significant change as the pooling proposal develops. Nevertheless, it is anticipated that these initial estimates will form the starting point for the monitoring of forecast and actual costs. At appropriate points in the project going forward, it may be necessary to update the range of estimates. There will be a formal sign off of the final estimates by the Joint

Committee.

It is envisaged that for the implementation costs (excluding transition), the actual costs against the initial and updated forecasts will be reported to the Joint Committee (once established, before then the Member Steering Group) and the individual partner Funds on a quarterly basis. They will also be reported to the Officer Operations Group who will undertake detailed monitoring. These costs will be subject to audit.

For the transition, a transition manager will be appointed. They will be required to develop a transition plan, which will be signed off by the partner Funds and the Joint Committee.

The transition manager will be required to liaise with BCPP and the partner Funds during the transition process to ensure that it is managed effectively. There will be daily reporting to BCPP and, if appropriate, the partner Funds.

An independent transition performance measurer will be appointed to measure and monitor the success of the transition.

Prior to the transition, a pre-trade report will be produced, which will set out a potential range of costs, risks, market environment and assumptions used.

Once the transition is complete a post-trade report will be produced, comparing the actual costs against the forecast cost range and setting out the reasons for the differences. Both the transition manager and the independent transition performance measurer will be required to produce a detailed transition outturn report. This will be presented to the Joint Committee and the partner Funds.

(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.

As with the set up costs, the initial cost range for the ongoing costs will be subject to significant change as the proposal develops. Nevertheless, it is anticipated that these initial estimates will form the starting point for the monitoring of forecast and actual costs. At appropriate points in the project going forward, it may be necessary to update the range of estimates. There will be a formal sign off of the final estimates by the Joint Committee.

On an ongoing basis, BCPP will be required to produce an annual business plan and budget. This will be approved by the Joint Committee. There will be quarterly monitoring against the business plan and budget. This will set out the detailed budget heads over which expenditure will be monitored and controlled.

Any costs incurred will be subject to both review by internal and external audit.

The fee information provided in (C2b) above is on a transparent basis. It is based on information collected from the individual funds by CEM Benchmarking, a global fee benchmarking provider. This ensures that the fee information is collected on a consistent basis across all partner Funds. It is envisaged that BCPP and the partner Funds will continue to use an external benchmarking provider to monitor the fee costs. Until all assets are transferred into BCPP, it will be necessary to collect fee information and costs from both the BCPP and the partner Funds. This information will be collected on an annual basis and reported to both the Joint Committee and the individual partner Funds.

It will be important to ensure that any comparisons between years will be on a like-for-like basis and strip out the impact of asset allocation changes.

BCPP will also fully report all costs and expenses on the investment vehicles in line with industry best practice guidance, including the production of Level 2 disclosure tables setting out commissions paid and undertaking foreign exchange audits. Full total expense ratios will be calculated for each individual sub-fund. An estimate of this will be shown in the prospectus for each sub-fund with the actual being reported at the year-end as a comparator. This will be reported to the Joint Committee, the individual partner Funds and the Officer Operations Group.

Individual partner Funds will also have to show the fees and costs incurred in their Annual Report and Accounts. This will follow CIPFA best practice guidelines.

While cost control and fees are important, the main driver of the success of BCPP will be the net performance across all of the sub-funds. There will be quarterly reporting to the Joint Committee and to the individual partner Funds on the performance of each individual sub-fund. Representatives of BCPP will be available to present to the Committee of each individual partner Fund on a quarterly basis. This performance monitoring will compare the performance of each sub-fund against the benchmark as set out in the prospectus.

BCPP and the individual partner Funds will each appoint an independent performance provider. It may be that BCPP and the Funds appoint the same organisation and this would have the benefit of being more efficient and reduce costs. However, this will not be a requirement as it will be up to each partner Fund and BCPP to make the final decision on this. Where the Pool and Funds have different performance measurement providers, it is envisaged that they will use a common performance methodology in line with industry best practice.

Net performance will be shown on the BCPP website and individual partner Funds will show the performance of their own assets on their website and in their Annual Report and Accounts.

c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

The fee and cost basis as calculated by CEM Benchmarking as at 31<sup>st</sup> March 2015 will be used as the starting point against which actual investment savings will be measured. Savings will come from a combination of negotiating lower fees due to scale and a change in approach to investing in alternatives, including more co-investments, direct investing and a reduction in the use of fund of funds.

BCPP has made assumptions on the level of fee savings that can be delivered.

These assumptions will develop over time and updates will be regularly reported. For example, annual fee savings of around £1.8m have already been achieved on the externally managed passive mandates on only the prospect of pooling activity.

The position on individual funds has been reported to each partner Fund and the total position has been reported to the Member Steering Group. This practice will continue going forward.

Whenever a new sub-fund for quoted assets is established, an assessment of the fees and costs previously incurred will be estimated and compared with the newly negotiated fees and costs. The outcome of this will be reported to the Joint Committee and individual partner Funds. This will allow BCPP and the partner Funds to track savings as and when they are achieved.

The savings on alternatives will be more difficult to establish, as many of the fees and costs are not transparent. It will be necessary to calculate the savings from alternatives on an annual basis. This will compare the fees and costs from the assets at the individual funds in run-off to the newly created alternative programmes within BCPP. Full and transparent disclosure on fees and costs will be needed.

When assessing savings, it will also be necessary to identify those services that have transferred to BCPP and have resulted in savings at individual partner Fund level. To calculate this, it is envisaged that each partner Fund would have to declare its own savings.

A full analysis of fees and costs will be undertaken annually to assess the overall savings that have been implemented. This will be compared with the initial forecasts as set out in this submission as well as updated as and when they are calculated. The outcome of this will be presented to the Joint Committee and the individual Funds.

It will be important to ensure that any comparisons between years will be on a like-for-like basis and strip out the impact of asset allocation changes.

It does need to be recognised, however, that it may be appropriate and a positive outcome, for BCPP to incur higher fees. This will occur where BCPP has negotiated performance fees and a manager or a number of managers have significantly outperformed. Therefore, great care will need to be taken when trying to assess cost or fee savings. The key measure, as always, will be net of costs performance.

## Criterion D: An Improved Capacity to Invest in Infrastructure

### 1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or “funds of funds”

(a) Please state the pool’s committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	<b>3.9%</b>
(b) Please state the pool’s target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	<b>4.1%</b>

Please use the definition of infrastructure agreed by the Cross Pool Collaboration Infrastructure Sub- Group (CPCISG).

#### **ANNEX 7**

### 2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or “fund of funds” arrangements.

(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.

The core beliefs of the partner Funds of BCPP asset allocation strategy include allocations to infrastructure.

As is best practice and currently the case in all partner Funds of BCPP, asset allocation is kept under continual review. Changes in allocations will be made to address liability profiles through access to an appropriate mix of asset classes to meet their individual risk / return requirements.

However, the partner Funds acknowledge that, especially for infrastructure as an asset class, the benefits and access are improved when investing more directly at scale.

As such the pool will look to support the partner Funds by improving the access through the establishment of a LGPS national infrastructure initiative.

BCPP will aim to do this through:-

- actively engaging and supporting the work currently being undertaken by the Cross Pool Collaboration Infrastructure Sub-Group (CPCISG) to establish a national initiative, and
- by allocating sufficient resource to be an active partner (on both due diligence and asset maintenance) in any future collaborative initiative.

<p>(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools. Include a timescale for implementation of the initiative.</p>	<p><b>Yes</b></p> <p><b>ANNEX 8</b></p>
<p>(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing shared resources of other Pools and include a timescale for implementation of the initiative.</p>	<p><b>N/A</b></p>

**3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.**

(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.

BCPP (the Pool) is a means of servicing the investment needs of the individual partner Funds to drive through efficiencies, increase resilience and improve governance by optimising combined scale. As such the pool will not, nor should it set asset strategy or determine allocations to any asset class, including infrastructure. Therefore, BCPP allocations to infrastructure will be driven by the partner Funds assets allocation strategies which are a direct reflection of their individual liability profiles and risk adjusted return requirements which are informed by their legal fiduciary duties set out in the LGPS Management and Investment of Funds Regulations 2009.

However, the partner Funds acknowledge that for infrastructure especially, the benefits and access to infrastructure as an asset class are improved when investing at scale.

As such to support the partner Funds in their consideration of infrastructure the Pool will aim to :-

- optimise benefits of scale through active engagement in a national initiative - CPCISG,
- aim to provide investments that both improves the cost / benefit and offers stronger governance rights than are currently available,
- allocate sufficient resources to develop capability and capacity on the basis of serving a combined ambition of up to 10% of the partner Funds asset holdings.

(b) Please describe the conditions in which this allocation could be realised.

The aim of the Pool is to ensure partner Funds can access the breadth of infrastructure as an asset class in the most efficient way to ensure delivery of their individual risk-adjusted return requirements.

Part of the proposed solution to achieve this will be through collaborating with the other pools to develop a national initiative which will both drive through scale cost benefits and develop enhanced capacity and capability by sharing of resources.

BCPP supports the work to develop a joint national infrastructure initiative that would enable the partner Funds to move from their current reliance on investment approaches such as fund-of-funds / direct funds to a hybrid model that encompasses a range of approaches moving towards more direct styles of investing.



APPROACH	DESCRIPTION	CHARACTERISTICS
Fund of Funds	Investing with a manager in a number of funds	Diverse but high cost
Direct Funds	Invest in a (few) infrastructure funds	Simple, costs of fund, limited control
Passive Co-investment	Investing alongside funds, largely relying on those funds due diligence and management.	Cost savings, some control
Active Co-investment	Investing alongside others but more active role in selection, due diligence and management	Lower costs, more control. Reasonable resources require
Leading Investment	Leading the structuring, pricing, syndication of deals	Maximum control High level of resources and skill required.

By adapting investment style, BCPP's aim is to improve governance and reduce costs of infrastructure investing

Good progress has been made to date (through the Cross Pool Collaboration Infrastructure Sub-Group) on collaborative approaches, and there is now an understanding across the pools of the issues to be addressed to ensure this ambition can be realised. Work through this group is scheduled to continue over phase three of the implementation process to address these where they are internal structuring issues.

However, there are limiting factors that relate to wider market conditions over which, even as a combined initiative, the pools will have limited ability to influence. The current market intelligence indicates that availability of capital is not a major limiting factor but rather the primary restraint is the availability of suitable investments, i.e. those that meet the desired risk-adjusted return characteristics of LGPS Funds e.g. diversification and assets that meet the long term, secure inflation linked income streams desired by pension funds. As such any support central government can give to improving the investment offer and / or availability of fully formed infrastructure investment proposals would be welcomed.

Some of the key conditions that will need to be prevalent to enable BCPP to develop its offer include:-

- Availability in the market of infrastructure assets that are priced to meet the partner Funds / Pool risk-adjusted return requirements,
- Due to current resource shortages – ability to attract and retain appropriately skilled personnel to build out the teams to support the increased levels of initial investment sourcing, due diligence plus the need for resource to undertake future asset management.
- Governance structures that support both efficient execution (i.e. delegation and capital) and the different resource capabilities of the pools.
- Time to build out the teams and source the deals. Research has shown that the large international Funds that currently invest through more direct means have taken 10-15 years to build up to the current investment levels.
- Time and capacity to establish the external strategic relationships required to operate the proposed hybrid investment model

## ASSETS TO BE HELD OUTSIDE THE POOL

### LOCAL INVESTMENT INITIATIVES

It is believed that there should be scope for a small proportion of the below partner Funds allocations to be available for **new** investment into local initiatives outside the formal pool structure other than for the reason identified in the body of this submission.

- Durham
- North Yorkshire
- Northumberland
- South Yorkshire
- Teesside
- Tyne and Wear

For example, such investments might be made where the risk/return characteristics are suitable, where clear value for money can be demonstrated but the investment is not considered suitable for the pool to invest in. The most likely reason for an investment not to be suitable for the pool would probably be size.

### INVESTMENTS LINKED TO LIABILITIES

South Yorkshire Passenger Transport Fund currently has a 45% (c. £95m) allocation to UK index-linked bonds which are used as part of a bespoke liability-driven investment strategy and, therefore, will not be transferred into the Pool.

**BCPP ASSET TRANSITION PLANNING (AS AT JULY 2016)****HIGH LEVEL TIMELINE FOR ESTABLISHING THE BCPP LEGAL STRUCTURE**

BCPP	Summary Timeline for Establishing Pool
July 2016	Submit Consultation Response
Sept 2016	Government Approval Proposal
Oct 2016	Approval of detailed project plan by Funds
Oct 2016	Formal creation of governance structure
Oct 2016	Commence regulatory approval process
Dec 2016	Recruit Senior Executives and Non-Executives
Jan 2017	Commence Asset Transition Planning
Jan 2017	Amendments to Constitutions as Required
Dec 2017	Complete Asset Transition Planning
Dec 2017	Receive Regulatory Approval
Dec 2017	Start TUPE transfer of staff from existing Funds
Dec 2017	Recruit additional investment and operational staff
April 2018	Commence operations

## METHODOLOGY FOR REPORTING AGAINST ASSET TRANSITION

The transition plan will be developed by BCPP and an external transition manager, but as this is a joint process between the partner Funds and the Pool, it will be signed off by partner Funds transitioning assets into that sub-fund.

- BCPP and transition manager will monitor and report to all partner Funds in the pool throughout each transition process, but as a minimum progress / costs, etc will be reported in the formal quarterly reporting;
- BCPP is minded to appoint an external transition performance measurer and is currently reviewing the advantages / additional costs of such an appointment;
- A pre-trade report will be produced for all transition exercises (cost range, risks, market environment and assumptions);
- This will be compared to a post-trade report (comparing forecasts to actuals and the reasons for differences);
- Due to the significance of this element of the pooling process, in terms of both costs and potential reputational damage, for each transition undertaken a final outcome report will be submitted to the Joint Committee and the constituent Funds through the Officer Operations Group.

## BCPP ASSET TRANSITION PLANNING (TABLE 1)

BCPP	Type of asset	Expected transition timetable
Assets held within formal structure	Internally managed liquid assets	In specie transfer in April 2018
	Global and Regional Equities	Assumed 6-month tender exercise from April 2018
	Fixed Income	Assumed 6-month tender exercise from April 2019
	Diversified Growth Funds	Assumed 6-month tender exercise from October 2019
Assets outside formal structure but within pool	Passive life vehicles	For planning purposes assumed to be held outside the structure but managed within pool on a permanent basis. Will be reviewed when the market offers ACS suitable equivalent.
	Other life vehicles	
Legacy illiquid assets	Property	Assumed an average holding period of 10 years with reinvestment into the pool
	Private Equity	
	Infrastructure	
	Other Alternatives	
	Multi-asset credit	

## **BCPP ASSET TRANSITION PLANNING (TABLE 2)**

	2018	2021	2024	2027	2030
<b>Assets held within formal structure</b>	£23.3bn (65.0%)	£24.8bn (69.2%)	£26.3bn (73.3%)	£27.8bn (77.5%)	£28.4bn (79.2%)
<b>Assets outside formal structure but within pool – passive life vehicles</b>	£6.0bn (16.6%)	£6.0bn (16.6%)	£6.0bn (16.6%)	£6.0bn (16.6%)	£6.0bn (16.6%)
<b>Assets outside formal structure but within pool – other life vehicles</b>	£0.8bn (2.2%)	£0.8bn (2.2%)	£0.8bn (2.2%)	£0.8bn (2.2%)	£0.8bn (2.2%)
<b>Legacy assets in run-off outside formal structure</b>	£5.1bn (14.2%)	£3.6bn (10.0%)	£2.1bn (5.9%)	£0.6bn (1.7%)	-
<b>Assets held permanently outside pool</b>	£0.7bn (2.0%)	£0.7bn (2.0%)	£0.7bn (2.0%)	£0.7bn (2.0%)	£0.7bn (2.0%)

## BORDER TO COAST PENSIONS PARTNERSHIP (“BCPP”)

### MEMORANDUM OF UNDERSTANDING (“MOU”)

#### 1. PURPOSE AND STATUS OF MOU

- 1.1. This Memorandum is intended to set out the basis of the relationship between the parties, how the parties will work together, and set out the initial governance arrangements.
- 1.2. It is recognised that the decision to participate in the Border to Coast Pension Partnership Pool (“the BCPP Pool”) will be made on behalf of each participating fund. Until that decision is made it is necessary for the Parties to work co-operatively to develop the final proposal for the BCPP Pool.
- 1.3. The MoU will also establish principles of financial contribution to facilitate the creation of the BCPP Pool in accordance with the requirement of UK government.
- 1.4. The MoU does not form a binding contract between and is not otherwise intended to be legally binding on or enforceable against any of the parties. The parties have entered into a separate arrangement as to the costs of set up which is intended to be binding on the parties.

#### 2. PARTIES

- 2.1 The parties to the MoU shall be the administering authorities of the funds who have agreed to work together with a view to creating the BCPP Pool details of whom are set out in the First Schedule and shall be referred to collectively herein as “the Parties” and individually as “Partner Funds”

#### 3. CORE BELIEFS

- 3.1. One Partner Fund, one vote for all participating funds from time to time regardless of Fund size.

- 3.2. Asset allocation strategy remains a decision for each Partner Fund. This is necessary to enable Partner Funds to demonstrate that they are exercising their democratic and fiduciary duty. For practical reasons, the Parties will work together to establish a single RI/ESG policy and a policy for the exercise of rights attaching to investments, based on best practice, with the intention that it will be adopted by each Partner Fund. The adoption of such a policy will be a matter for individual determination by each Partner Fund.
- 3.3. The BCPP Pool's role is to independently and professionally deliver Partner Funds asset allocation choices. It will make decisions relating to and monitor the investment managers (including employees of the BCPP Pool) who manage the administering authorities' "fund money" with the aim of maximising the long-term net of fees investment returns attributable to each of the Parties. All Partner Funds accept that if savings are to be achieved, changes will be required through the rationalisation and standardisation of processes.
- 3.4. There will be clear segregation between duties undertaken by the Parties and duties undertaken by the BCPP Pool, including during the period after the BCPP Pool has been established but assets have not yet been transferred when staff secondment arrangements will be entered into for certain employees of the BCPP Pool. This will ensure both that the fiduciary duty and democratic responsibility of the Partner Funds can be maintained, whilst achieving the cost benefits and expanded professionalism of the investment functions through scale.
- 3.5. The BCPP Pool should have a strong corporate governance philosophy, focused on the delivery of long term value through active corporate engagement, the rationale being that this aligns directly with ensuring the Partner Funds exercise their fiduciary duty in the best interests of their members and employers.
- 3.6. The Parties acknowledge that there may be occasions where the BCPP Pool is unable to implement all asset allocation strategy decisions made because it would not be cost effective to do so, but the Parties and the BCPP Pool will work together to avoid this situation.

#### 4. VISION FOR OPERATION

- 4.1. The broad vision of how the BCPP Pool will operate has been agreed by the Parties and is outlined below. While the governance structures and associated vehicles have not as yet been finalised, the required tiers of control and governance that will be required have. BCPP intends that they will incorporate the following activities:
- 4.1.1. **SUPERVISORY ENTITY:** the purpose is to provide overall accountability by the Partner Funds and act as the conduit back into the Partner Funds' democratic and fiduciary processes. There will be equal representation from each Partner Fund at this level. It will define key strategic objectives and operational governance of the BCPP Pool, including any scheme of delegation to the Executive Body. Under the BCPP proposal, it could be either a joint committee or shareholder board. Whichever is finally chosen, it will have strong and well defined links back into the Partner Funds, so as to ensure they can perform their fiduciary duty to members and employers and demonstrate a clear democratic link. It will be supported by an Officer Operations Group which will advise the Supervisory Body.
- 4.1.2. **FULLY REGULATED ASSET MANAGEMENT COMPANY OVERSEEING ALL ASSETS:** This company would report to the Supervisory Entity. It would have decision making powers over external asset manager selection across all asset classes and would be able to provide internal asset management across a range of asset classes. There would need to be an appropriate segregation of responsibilities between the external asset manager selection and monitoring operation and the internal investment management operation.
- 4.1.3. **FUND STRUCTURES:** It is believed that different structures may be needed for different asset classes. For the segregated quoted assets it is understood that if a regulated fund structure is needed, then an ACS is the most appropriate structure. The operator of an ACS may be either rented or own built. It is also understood that if an ACS is to be used this would not be an appropriate structure for holding any life fund policies or illiquid assets such as property and private markets investments.

## **5. INTERIM GOVERNANCE GROUPS**

- 5.1. The Parties intend that there should be two informal bodies working together to establish the BCPP Pool. These are:
- Members Steering Group; and an
  - Officer Operations Group.
- 5.2. These groups will not have any corporate existence (i.e. they will not have been formally constituted and will not have a legal personality) and will meet on an interim basis with the purpose of developing a proposal for approval by the Parties and subsequent submission to the Government and continue until formal approval is given by government / the partners and a corporate entity is formed.
- 5.3. The broad remit of these groups is shown below with detailed Terms of Reference for each group at Appendix 1 and 2 respectively.

## **6. ROLE OF THE MEMBER STEERING GROUP**

- 6.1. The Member Steering Group shall establish their own arrangements for Charing meetings, subject to the principles set out in this MoU.
- 6.2. The Member Group should undertake the following functions:
- To provide support and guidance to the work being undertaken by the Officer Group to draft the final proposal
  - To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with Partner Funds' Committees
  - To review and monitor project management arrangements and proposals for the appointment of advisers
  - To oversee costs to deliver the final proposal, obtaining approval from Partner Funds' Committees where necessary
  - To monitor and review responsibilities for delivery of the project and relevant support arrangements

- To oversee the collation of a report to Partner Funds' Committees setting out the terms of the final proposal
- To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group
- To take any decision referred to them by the Officer Operations Group

6.3. Officers will be available to provide advice and secretarial support to the Members Steering Group.

## **7. ROLE OF THE OFFICER OPERATIONS GROUP**

7.1. The Officer Operations Group shall perform the following functions subject to the governance provisions below:

- To respond to feedback from HM Treasury ("HMT") and DCLG on the February 2016 BCPP Pool proposal, and to further dialogue with HMT/DCLG as appropriate
- To develop and complete the final proposal, and to make a joint submission of that proposal to DCLG by July 2016, and in readiness for that to:
- To define the scope of appropriate sub-groups (structure and governance, operations, investment and infrastructure, asset transition, reporting and communications)
- To appoint a project manager and ensure effective project management and implementation of work stream tasks accordingly
- To establish appropriate work streams and sub-groups
- To develop a list of appropriate sub-funds
- To develop along with advisors a cost savings model with a 15 year projection, to include full analysis for each of the funds' cost projections
- To plan for asset transition and any related priorities (e.g. unitisation and tax)
- To identifying the staff resource and qualification requirements
- To research and define, along with advisors the investment regulatory regime applying to any proposed structures (including as regards any relevant employees) and to plan for obtaining all relevant FCA authorisations

- 7.2. The Officer Operations Group will keep the Member Steering Group briefed on its actions and will consult with them where appropriate and/or necessary.

## **8. SUB-GROUPS**

- 8.1. Both the Member and Officer groups shall be able to establish sub-groups or working parties to carry out any of the functions set out above. Those sub-groups shall make recommendations to the parent group for approval insofar as that Group is legally able to grant such an approval within existing mandates from Administering Authorities and their respective committees

## **9. DECISION TAKING**

- 9.1. The principle of the BCPP Pool is one member one vote on the assumption of the contribution of an equal share purchase.
- 9.2. All decision taking shall be within the authority held by the respective partner Funds and members attending meetings of the Groups or otherwise making decisions. Decision taking will be on a consensus basis, where possible. Decisions will be taken either by “written resolution” (could be a round robin e-mail) or by a meeting where all of the funds are either represented or have been offered the chance to participate by proxy. Any decision which cannot be taken unanimously by the Officer Operations Group shall be referred to the Member Steering Group for determination. Any decision of the Members Steering Group will require at least seven votes in favour to pass.

## **10. MEETINGS**

- 10.1. To be held on at least 7 days notice unless notice waived by all funds. Possibly in accordance with an agreed schedule of meetings linked to key dates. Meeting notices to stipulate who should attend – i.e. officer or member representative or both. The meeting notices should allow for proxy voting. Evidence of the grant of the proxy should be presented to the Chair before the proxy is used.

## 11. QUORUM

11.1. Any meeting will require a quorum of seven out of 12 to take any decision at the meeting. If a “Written Resolution” is used then at least seven voting members will be required to support it.

## 12. MEMBERSHIP

12.1. At present membership is limited to the Parties as set out in Schedule 1. Should any other fund wish to join the BCPP Pool this would have to be agreed by all Parties.

12.2. Any fund wishing to leave the BCPP Pool would be required to meet all costs due to the date of leaving and any costs committed during the time it was a member.

## 13. SET UP COSTS

13.1. During this set up phase where expenditure is agreed to by the BCPP Pool acting through either the Member or Officer Group but costs are incurred by a single Partner Fund acting on behalf of the Parties those costs will be split equally between the voting members of the BCPP Pool and will be payable within 14 days of being invoiced.

13.2. No fund shall seek to charge the BCPP Pool for the internal professional costs incurred during set up without the prior agreement of all of the Parties

## 14. COSTS PRINCIPLES

14.1. The BCPP Pool will adopt the following principles governing cost apportionment throughout its life:

14.1.1. Set up costs:

- From initiation to final consultation response all Funds to set aside a budget of £50k each. In reality expenditure is expected to be less than c. £200k.

*PRINCIPLE:* one fund one vote, therefore to be split equally between voting funds.

- Set up costs for ACS, FCA, TUPE etc. Initial forecast c. £2m - £2.5m if a fully regulated route is adopted.

*PRINCIPLE:* one fund one vote, therefore to be split equally between voting funds.

#### 14.1.2. Transition costs:

- Day 1 transition costs

*PRINCIPLE:* day 1 transition costs to be shared based on the value of each of the funds' assets under management (AUM) transferring into each sub-fund (all costs of transitioning in, will divided back out by AUM within the sub fund). This sharing will be in the sub-fund where the assets are moved into not the asset class where they have come from. This is believed to be the most equitable basis as all will access the savings generated from reduced fee structures and therefore it would be unfair to benefit from fee savings without sharing the transition costs. This is subject to a confirmation of how this allocation can be legally undertaken i.e. avoiding cross subsidisation.

- Transitions after initial inception. Where an individual fund undertakes a strategy review and moves sub-funds.

*PRINCIPLE:* the individual fund will bear the full costs of transition.

14.2. All Partner Funds agree that they need to behave responsibly and have a general duty not to do anything to increase the costs of a transition to other partners. This does not outweigh each of the Partner Funds' fiduciary duty to manage its assets responsibly.

- Ongoing fixed costs: i.e. FCA compliance and fees, staff etc.

*PRINCIPLE:* more research required.

- Ongoing variable costs and any income: i.e. manager costs, sub-fund costs

*PRINCIPLE:* on AUM at a sub-fund level.

14.3. These principles should be reflected in any subsequent dealings of the BCPP Pool unless the contrary is agreed by decision of the Member Steering Group or any successor body.

## **15. APPOINTMENT OF EMPLOYEES**

- 15.1. The BCPP Pool will not directly employ anyone at this stage.
- 15.2. Recruitment will only commence once formal approval for the BCPP Pool has been secured from DCLG and each Partner Fund has reached full and final formal agreement to commit to the creation and ownership of a joint legal entity.
- 15.3. The legal entity will be created and apply widely accepted personnel practices across Local Government. These will be reflected in the recruitment, appointment, TUPE transfer and terms and conditions of future staff. This includes the appointment of the senior members of the entity being a Member led recruitment process.
- 15.4. The new entity will use the Local Government Pension Scheme as its designated auto-enrolment scheme. The most appropriate of the current Funds will facilitate entry of the new entity and the Funds from which any staff transition undertakes to provide the necessary guarantees to ensure there is no transference of historic pension liabilities.

## **16. ADVICE STATUS**

- 16.1. Where possible advice should be sought which can be relied upon by all partners, either by it being addressed as such or by use of Rights of Third Parties legislation

## **17. STATUS**

- 17.1. This arrangement is not intended to create a partnership within the meaning of the Partnership Act 1890. No individual will be in a position to legally bind the BCPP Pool. The Parties recognise the sovereignty of each fund at this stage and the need for them to reach appropriate decisions through proper routes to proceed at the various stages.

## Schedule 1

### Details of Participating Funds

<b>Fund Name</b>	<b>Administering Authority</b>	<b>Address</b>
Bedfordshire Pension Fund	Bedford Borough Council	Borough Hall Cauldwell Street Bedford MK42 9AP
Cumbria Pension Fund	Cumbria County Council	The Courts Carlisle Cumbria CA3 8NA
Durham Pension Fund	Durham County Council	County Hall Durham DH1 5UE
East Riding Pension Fund	East Riding of Yorkshire Council	Council Offices Church Street Goole East Riding of Yorkshire DN14 5BG
Lincolnshire Pension Fund	Lincolnshire County Council	County Offices Newland Lincoln LN1 1YL
North Yorkshire Pension Fund	North Yorkshire County Council	County Hall Northallerton North Yorkshire DL7 8AL
Northumberland Pension Fund	Northumberland County Council	County Hall Morpeth Northumberland NE61 2EF
South Yorkshire Pension Fund	South Yorkshire Pensions Authority	18 Regent Street Barnsley S70 2HG
Surrey Pension Fund	Surrey County Council	Room G40 County Hall Penrhyn Road Kingston upon Thames KT1 2DN
Teesside Pension Fund	Middlesbrough Council	PO Box 340 Middlesbrough TS1 2XP
Tyne and Wear Pension Fund	The Borough Council of South Tyneside	Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear NE33 2RL
Warwickshire Pension Fund	Warwickshire County Council	PO Box 3 Shire Hall Warwick CV34 4RL

## Appendix 1

## BCPP MEMBER STEERING GROUP – TERMS OF REFERENCE

### 1. PURPOSE AND ROLE

- 1.1 The Member Steering Group has been established with the approval of the individual Partner Fund Committees of each of the Border to Coast Pensions Partnership (BCPP) 12 founder funds.
- 1.2 The primary purpose of the Member Steering Group is to support fund officers to develop the final proposal for the BCPP. Its role includes in particular monitoring, scrutinising and overseeing the Officer Operations Group as it seeks to develop the final proposal.
- 1.3 The Member Steering Group will provide effective engagement with the individual Partner Fund Committees as the project progresses. It will seek to encourage best practice, promote equity and fairness across all the 12 funds, and increase transparency and accountability to the individual Partner Fund Committees.
- 1.4 A joint submission of the final proposal for the BCPP must be made to the Department for Communities and Local Government (DCLG) by 15<sup>th</sup> July 2016. If DCLG approves the proposal, the Member Steering Group will continue to function until the final institutional structure of the BCPP Pool is established at some time during the period between 15<sup>th</sup> July 2016 and 31<sup>st</sup> March 2018, being the date by which the BCPP Pool must be fully operational (the “interim period”). During the “interim period”, the Member Steering Group will oversee the appointment of members of the Officer Operations Group, and will continue to progress the delivery of the BCPP Pool and its functions until appointments to the permanent oversight body (Joint Committee or Board) are completed (recognising that these must be ratified by individual Partner Fund Committees).
- 1.5 The Member Steering Group's remit is expected to evolve during the “interim period” as set out below.

### 2. REMIT

- 2.1 The remit of the Member Steering Group is:

#### ***Stage 1 – preparing and submitting February 2016 initial pooling proposal***

- Completed – no further action

**Stage 2 – preparing and submitting the final proposal for submission on 15<sup>th</sup> July 2016**

- To provide support and guidance to the work being undertaken by the Officer Operations Group to draft the final proposal.
- To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with individual Partner Fund Committees.
- To scrutinise and monitor project management arrangements and proposals for the appointment of advisers.
- To oversee costs to deliver the final proposal, obtaining approval from individual Partner Funds Committees where necessary.
- To monitor and scrutinise responsibilities for delivery of the project and relevant support arrangements.
- To oversee the collation of a report to Partner Fund Committees setting out the terms of the final proposal.
- To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group.
- Comment on the draft terms of reference that will apply post July 2016 to both the Member Steering Group and Officer Operations Group, and any sub-committee roles and responsibilities.

**Stage 3 – post approval of proposal until Oversight Body established**

- To formulate processes and policies for appointment and termination of membership to the new Committee/Board.
- To propose and confirm contracts and policies required to commence transition to the BCPP Pool arrangements.
- To provide support and guidance to the work being undertaken by the Officer Operations Group to do all things necessary to implement the final proposal, including preparatory work for asset transition.

**Stage 4 – Oversight Body established**

- To facilitate the adoption by Partner Fund Committees of relevant contracts and policies.

- To facilitate the adoption by Partner Fund Committees of the terms of reference for the new Board/Joint Committee and the governance of the underlying structures.
- To ensure the effective handover of responsibilities to the new Oversight Body from the Member Steering Group.

### 3. INDIVIDUAL PARTNER FUND SECTION 151 AND MONITORING OFFICERS

3.1 The Member Steering Group shall work with the Officer Operations Group on a regular basis to ensure that Section 151 and Monitoring Officers are kept informed of the activities of the Member Steering Group and the BCPP proposals generally, and will engage with Section 151 and Monitoring Officers as appropriate on all matters relevant to their pension fund duties and functions.

### 4. MEMBERSHIP

4.1 The membership of the Member Steering Group and the process for the appointment of members is as follows:

<b>Seat</b>	<b>Representative</b>	<b>Appointment process</b>
<b>Chair</b>	Member of the Member Steering Group	Appointed by Member Steering Group members with advice from the Officer Operations Group
<b>Vice Chair</b>	Member of the Steering Group	Appointed by Member Steering Group members with advice as to process from the Officer Operations Group
<b>Fund Members</b>	Representatives from Individual Partner Funds Committees	Chairs of individual Partner Fund Committees to nominate a representative for their fund and a named substitute
<b>Independent Advisors (if required) (Non-voting)</b>	Specialists in governance, compliance, pensions finance	Member Steering Group appoints

## **5. TERM OF APPOINTMENT TO MEMBER STEERING GROUP**

5.1 The term of appointment for all Member Steering Group members is to be determined by individual Partner Funds for their respective member and shall be for the period to 31<sup>st</sup> March 2018 or the establishment of the new oversight body, or as determined by the individual Partner Fund whichever is earlier. The term can only be extended beyond the above with agreement from all Partner Fund Committees. Should a member leave their administering authority, that authority will appoint a replacement.

## **6. SUB-COMMITTEES AND WORKING GROUPS**

6.1 The Member Steering Group may establish these as and when required, and will be responsible for developing and agreeing the terms of reference, membership and when and how work should be reported back to the Member Steering Group.

## **7. CHAIR AND VICE CHAIR**

7.1 The Member Steering Group shall formulate a Role Description for the Chair and Vice Chair of the Member Steering Group.

7.2 The Chair will be appointed by the members of the Member Steering Group with advice/input from the Officer Operations Group. The term of such appointment shall be for an initial period of 12 months, commencing on 1<sup>st</sup> April 2016.

7.3 One Vice Chair shall be nominated by the Member Steering Group. The Vice Chair will deputise for the Chair when the Chair is absent. If neither the Chair nor the Vice Chair is present, the Member Steering Group shall appoint an acting chair from those present at the meeting.

## **8. RECOMMENDATIONS AND PROPOSALS**

8.1 The making of recommendations and proposals to individual Partner Funds Committees and the Officer Operations Group shall be by consensus, which will be determined by the Chair. Where consensus cannot be reached or where the view of the Chair is challenged then the proposal must be supported by at least seven Funds to pass.

## **9. FREQUENCY OF MEETINGS**

9.1 The Member Steering Group shall meet as required until the July submission is made, with frequency thereafter to be determined. The Chair can convene

additional meetings as required, subject to there being a consensus amongst members for such additional meetings. Due to time constraints, meetings may have to be called at short notice. Correspondence will be by e-mail.

## 10. ATTENDANCE

10.1 Members are expected to attend all meetings or ensure their substitute attends. Given the nature of the BCPP project and Member Steering Group, members will, where possible, be able to attend via a conference call.

## 11. QUORUM

11.1 The formal quorum will be 7. Substitutes will count towards the quorum.

## 12. DECLARATIONS OF INTEREST

12.1 Each member of the Member Steering Group will be expected to declare at each meeting any conflict of interest in the subject area to be considered by the Member Steering Group. If there is a conflict of interest the member may be asked to leave the meeting whilst the matter is considered.

12.2 Conflict of interest means a financial or other interest which is likely to prejudice the member in fulfilling their role as a member of the Member Steering Group.

## 13. REMUNERATION OF MEMBER STEERING GROUP MEMBERS

13.1 Members will not be paid remuneration for attending the Member Steering Group meetings. Administering authorities are responsible for paying expenses in line with established policies.

## 14. PERSONAL LIABILITY OF MEMBER STEERING GROUP MEMBERS

14.1 As the Member Steering Group is a body established by the administering authorities, the members are undertaking work on behalf of their LGPS funds and are therefore covered by the arrangements in place for their individual Partner Fund Committee.

## 15. SECRETARIAT

15.1 The Officer Operations Group will support the Member Steering Group, including:

- Provision of project management support.

- Provision of high level minutes including actions and agreements from meeting.
- Provision of advice as required
- Arranging meetings.
- Provision of agendas and any papers.

## BCPP OFFICER OPERATIONS GROUP – TERMS OF REFERENCE

### 1. PURPOSE AND ROLE

- 1.1 The Officer Operations Group (the "**Officer Operations Group**") has been established with the approval of the individual Committees of each of the BCPP Pool Partner Funds. It will report and be accountable to the Member Steering Group (acting on behalf of the individual Partner Funds Committees).
- 1.2 The primary purpose of the Officer Operations Group is to develop the final proposal for the BCPP Pension Partnership. Its role includes defining and arranging delivery of any further work required to enable the implementation of the BCPP Pool (the "**BCPP Pool**").
- 1.3 The Officer Operations Group will provide effective engagement with the Members Steering Group as the project progresses. It will seek to encourage best practice, promote equity and fairness across all the Partner Funds, and increase transparency and accountability to the Member Steering Group and Partner Fund Committees.
- 1.4 A joint submission of the final proposal must be made to the Department for Communities and Local Government ("**DCLG**") by 15<sup>th</sup> July 2016. If that is accepted, the Officer Operations Group will continue to function until a permanent Officer Advisory Group is established at some time in the subsequent period up to March 2018. During that period it will continue to progress the delivery of the BCPP proposition, and will work closely with the Member Steering Group on both the implementation of an appropriate structure for the BCPP Pool and also obtaining any necessary FCA authorisations.
- 1.5 The Officer Operations Group's remit will therefore evolve during this period as set out below.

### 2. REMIT

- 2.1 The remit of the Officer Operations Group is:

#### ***Stage 1 – preparing and submitting February 2016 initial pooling proposal***

- Completed – no further action

#### ***Stage 2 – until final proposal is submitted 15<sup>th</sup> July 2016***

- To respond to feedback from HM Treasury ("**HMT**") and DCLG on the February 2016 BCPP pooling proposal, and to further dialogue with HMT/DCLG as appropriate.
- To appoint representatives to present to the wider national evaluation group in June 2016 (and any subsequent meetings as deemed necessary by central government departments) on the BCPP proposal.
- To develop policies and processes to ensure the fair and equitable sharing of resources and costs required to develop and establish the BCPP proposal.
- To develop and complete the final proposal, and to make a joint submission of that proposal to DCLG by 15<sup>th</sup> July 2016, and in readiness for that to:
  - define the scope of appropriate work streams (structure and governance, operations, investment and infrastructure, asset transition, reporting and communications)
  - appoint a project manager and ensure effective project management and implementation of work stream tasks accordingly
  - outline the roles of the Governance and Compliance Groups
  - develop a cost savings model with a 15 year projection, to include full analysis for each of the funds' cost projections
  - plan for asset transition and any related priorities (e.g. unitisation and tax)
  - identifying the staff resource and qualification requirements
  - to develop company (including personnel structures) for the new FCA registered Investment Company.
- To investigate and make recommendations on the appropriate structure for the Officer Operations Group (corporate, LLP, lead authority), with particular focus on priorities relating to good governance and effective risk management.

- To research and define the investment regulatory regime applying to that structure (including as regards any relevant employees) and to plan for obtaining all relevant FCA authorisations
- To draft the outline roles and responsibilities of the senior officers (relating in particular to operational and compliance matters) of the permanent Officer Operations Group once established.
- To propose appropriate sub-funds for the pool.
- To develop a cost allocation methodology giving due regard to the initial principles as laid out in the MOU
- To appoint two representatives to the National Cross Pool Collaboration Group. These individuals should work closely with the other pools to share resource; ideas and costs in the spirit of wider collaboration across the LGPS to the benefit of all.
- To develop a policy for LGPS funds to enter/exit the BCPP

***Stage 3 – from the July proposal until the Operations Group is established***

- To take all steps required to implement the July 2016 final proposal for the BCPP through the establishment of the Operations Group, including:
  - confirming the staff resource, qualification and change management requirements
  - developing an asset transition plan and associated tax analysis
  - identify processes for the appointment of advisers and service providers
  - gaining required FCA and other regulatory approvals
  - developing appropriate procurement specifications and procedures
  - draft investment manager appointment, monitoring and dismissal processes
  - establishing appropriate IT systems and accounting processes

- To prepare and submit all relevant matters as final proposals to the Member Steering Group (acting on behalf of individual Partner Fund Committees)

**Stage 4 – establishment of Officer Operations Group**

- To engage with the Board on the adoption of the terms of reference for the Operations Group
- To ensure the effective handover of responsibilities and relevant work streams to the new Operations Group

**3. MEMBERSHIP**

3.1 The membership of the Officer Operations Group and the process for the appointment of those members is as follows:

<b>Seat</b>	<b>Representative</b>	<b>Appointment process</b>
<b>Chair</b>	A fund officer	Proposed by other Officer Operations Group members, to be ratified by the Member Steering Group
<b>Vice Chairs</b>	Two fund officers	Proposed by other Officer Operations Group members, to be ratified by the Member Steering Group
<b>Fund Members</b>	Officers from the founder funds	Chairs of individual Partner Fund Committees to nominate a lead officer and deputy representative for their fund

3.2 With the agreement of the other members, officers who cannot attend a meeting of the Officer Operations Group can nominate a named substitute to attend in their place. In the event that the Chair cannot attend a meeting, one of the Vice Chairs will act as Chair instead.

#### **4. TERM OF OFFICER OPERATIONS GROUP**

- 4.1 The term of appointment for all Officer Operations Group members is for the period to 31 March 2018 or the establishment of the formal Operations Group or as determined by the individual Partner Fund appointing the officer, whichever is earlier. The term can only be extended beyond the above with agreement from all individual partner Fund Committees.

#### **5. SUB-COMMITTEES AND WORKING GROUPS**

- 5.1 The Officer Operations Group may establish these as and when required, and will be responsible for developing and agreeing the terms of reference, membership and when and how work should be reported back to the Member Steering Group.

#### **6. CHAIR AND VICE CHAIRS**

- 6.1 The Chair and two Vice Chairs will co-ordinate and facilitate the work of the Officer Operations Group, liaising with the dedicated project manager accordingly.
- 6.2 The Chair and Vice Chairs will represent the Shadow Operations Group to the Member Steering Group and third parties. Operating in a transparent and accountable manner, they will ensure that all members are kept informed of such interactions.
- 6.3 Other members of the Officer Operations Group may also represent the Officer Operations Group where appropriate and necessary. They shall advise other members of such interactions, in advance when practical.

#### **7. RECOMMENDATIONS AND PROPOSALS**

- 7.1 The making of recommendations and proposals to the Member Steering Group (and through it, to individual partner Fund Committees) shall be by consensus. Where consensus cannot be reached the matter shall be referred to the Member Steering Group for determination

#### **8. FREQUENCY OF MEETINGS**

- 8.1 The Officer Operations Group shall meet as required, but no less than monthly. The Chair can convene meetings as required (and will do so where 5 or more members so request), subject to there being a consensus amongst members for such additional meetings. Due to time constraints, meetings may have to be called at short notice. Correspondence will be by e-mail.

## 9. ATTENDANCE AT MEETINGS

9.1 Members are expected to wherever possible attend all meetings or ensure their substitute attends. Given the nature of the BCPP and Officer Operations Group, members will, where possible, be able to attend via a conference call.

## 10. QUORUM

10.1 The formal quorum will be 7. Substitutes will count towards the quorum.

## 11. DECLARATIONS OF INTEREST

11.1 Each member of the Officer Operations Group will be expected to declare at each meeting any conflict of interest in the subject area to be considered by the Officer Operations Group. If there is a conflict of interest the member may be asked to leave the meeting whilst the matter is considered.

11.2 Conflict of interest means a financial or other interest which is likely to prejudice the member in fulfilling their role as a member of the Officer Operations Group.

## 12. REMUNERATION OF OFFICER OPERATIONS GROUP MEMBERS

12.1 Members will not be paid additional remuneration for attending the Officer Operations Group meetings but will record their time working on matters relating to the BCPP.

12.2 Administering Authorities are responsible for paying expenses in line with established policies.

## 13. PERSONAL LIABILITY OF OFFICER OPERATIONS GROUP MEMBERS

13.1 As the Officer Operations Group is a body established by the administering authorities, the members are undertaking work on behalf of their LGPS funds and are therefore covered by local arrangements.

## 14. SECRETARIAT

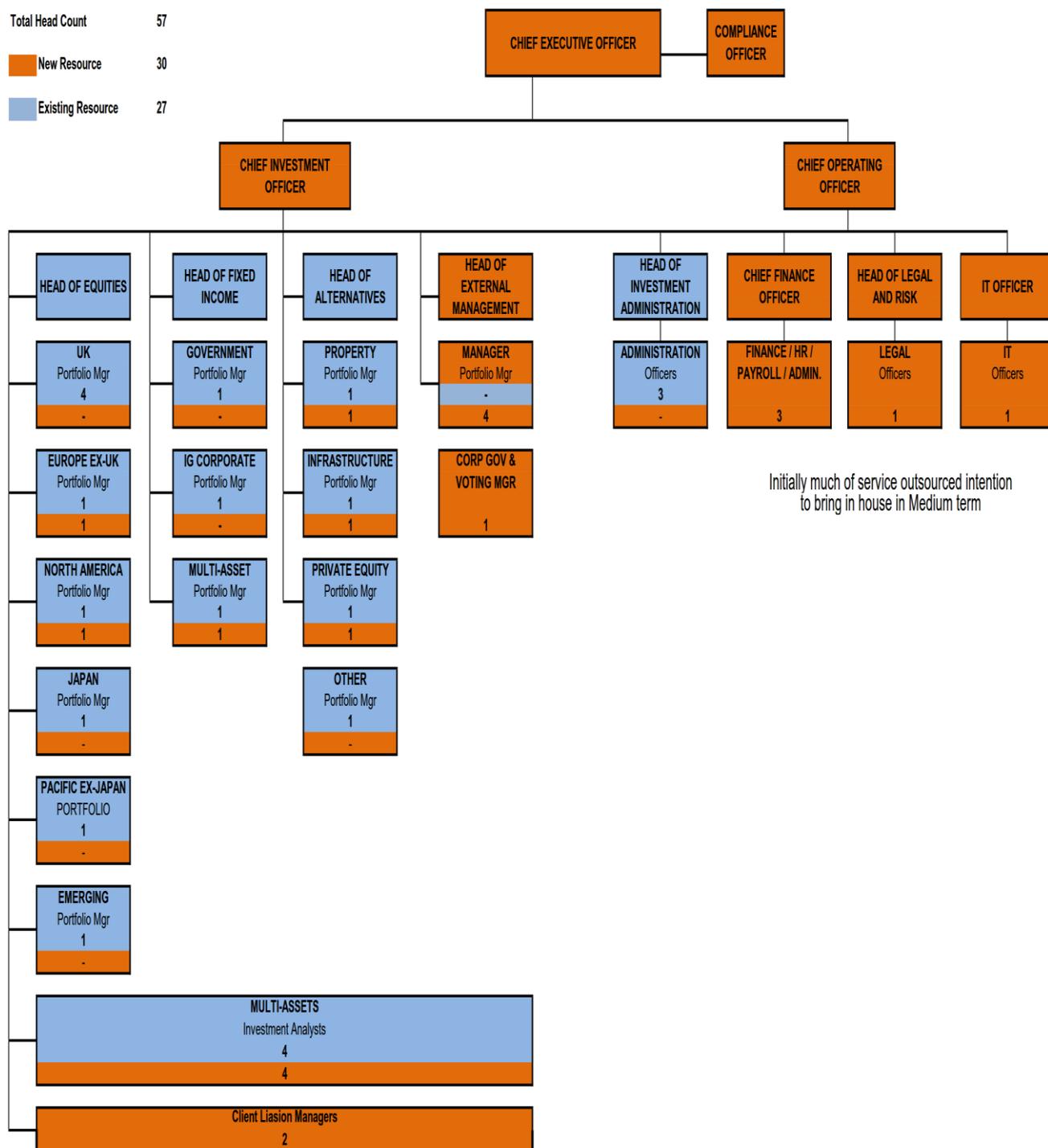
14.1 The project manager appointed to assist the Officer Operations Group will act as secretariat for the Group.

14.2 The Officer Operations Group will provide project management and secretarial support to the Member Steering Group, as reasonably required.

**BCPP PROPOSED STAFFING STRUCTURE AND SKILL SETS**

**BCPP DRAFT INITIAL STAFFING STRUCTURE FOR JULY SUBMISSION**

Total Head Count 57  
 New Resource 30  
 Existing Resource 27



## **CHIEF EXECUTIVE OFFICER:**

### **DEMONSTRABLE ABILITY:-**

- to conceive, develop and implement strategically significant change programmes (preferably in relation to complex financial investment organisations).
- to champion core public sector values whilst creating a business culture that is focused on performance improvements and efficiency,
- to lead, motivate, inspire and empower others,
- to work within a political environment (preferably experience of working with elected Members),
- to develop effective working partnerships between public sector (local and national) and commercial organisations,
- to encourage collaborative working with other strategic partners (in the context of BCPP this would include the Joint Committee, Officer Operations Group, service providers, investment managers, other Pools, Government departments, etc.).
- Possess relevant knowledge of investments and investment administration in order to ensure capability to provide appropriate challenge to the service specialists within the organisation (CIO, COO, Compliance Officer, etc.),
- Possess relevant knowledge of public sector governance and legal structures.
- Understand investment management commercial, financial and regulatory regimes.

**CREDIBILITY:** currently holds an influential position within the investment industry, both within government departments and external investment institutions to ensure BCPP is represented at appropriate national / international levels.

**RESILIENCE:** ability to work effectively within a complex environment and cope with exceptional pressure.

**EXCELLENT INTERPERSONAL SKILLS:** ability to foster strong relationships built on honesty, integrity and mutual respect.

**QUALIFICATION:** Appropriately professionally qualified.

## **CHIEF INVESTMENT OFFICER:**

### **DEMONSTRABLE ABILITY:-**

- to champion core public sector values whilst creating a business culture that is focused on performance improvements and efficiency,
- to lead, motivate, inspire and empower others,
- to work within a political environment (preferably experience of working with elected Members),
- to conceive, develop, evaluate and implement complex investment strategies,
- to communicate effectively to a wide audience across arrange of media.

### **DEMONSTRABLE EXPERIENCE / KNOWLEDGE:-**

- of successfully managing investment teams for both internal and externally managed assets.
- of direct and indirect investments across a wide range of asset classes and different investment structures e.g. Limited partnerships, unit trusts etc.
- of wide range of regulations and guidance including LGPS investment regulations, FCA regulations and guidance, stock exchange regulations, investment regulations e.g. MIFID
- of macroeconomics and its impact on investments and asset allocation
- of selecting, managing, monitoring, and challenging service providers including brokers, property advisers/valuers, performance and risk measurers, transition managers, search consultants, lawyers etc.

**RESILIENCE:** ability to work effectively within a complex environment and cope with exceptional pressure.

**CREDIBILITY:** significant successful investment experience to help develop BCPP's standing within the investment industry.

**EXCELLENT INTERPERSONAL SKILLS:** ability to foster strong relationships built on honesty, integrity and mutual respect.

**QUALIFICATION** Appropriately professionally qualified.

## **CHIEF OPERATIONS OFFICER:**

### **DEMONSTRABLE ABILITY:-**

- to champion core public sector values whilst creating a business culture that is focused on performance improvements and efficiency,
- to lead, motivate, inspire and empower others,
- to work within a political environment (preferably experience of working with elected Members),
- to conceive, develop, evaluate and implement complex finance, compliance and IT structures
- to communicate effectively to a wide audience across arrange of media.
- to deliver appropriate organisational risk structures.

### **DEMONSTRABLE EXPERIENCE / KNOWLEDGE:-**

- of successfully managing multi-functional teams,
- of managing large public procurement exercises,
- of selecting, managing, monitoring, and challenging service providers,
- of a wide range of regulations and guidance including financial / company reporting (private and public sector), FCA compliance regulations and guidance, data protection, etc.
- of operating FCA-compliant investment administration structures,
- of successfully managing the implementation of large scale change protects.

**RESILIENCE:** ability to work effectively within a complex environment and cope with exceptional pressure.

**CREDIBILITY:** significant successful experience to help develop BCPP's standing within the wider industry (both within the public and private sector).

**EXCELLENT INTERPERSONAL SKILLS:** ability to foster strong relationships built on honesty, integrity and mutual respect.

**QUALIFICATION:** Appropriately professionally qualified.

## PROPOSED BORDER TO COAST PENSION PARTNERSHIP

### RESPONSIBLE INVESTMENT APPROACH

#### **WHAT IS RESPONSIBLE INVESTMENT?**

Responsible investment can be described as a process where environmental, social and corporate governance (ESG) issues are incorporated into investment decisions to better manage risk and generate sustainable, long-term returns. This includes the analysis of ESG issues as an integral part of the investment process, alongside behaving as an active owner and using shareholder rights to improve long-term performance. It is a holistic approach which considers any information and data that could materially impact investment performance. It does not involve excluding investing in any particular sector or company. The incorporation of ESG factors in the investment process is part of the fiduciary duty to beneficiaries of funds. The Law Commission's 2014 report 'The Fiduciary Duties of Investment Intermediaries' states that Trustees may take into account any financial factors relevant to the performance of an investment including ESG factors.

#### **BCPP'S APPROACH**

The primary objective of the Border to Coast Pensions Partnership (BCPP) is to ensure that all funds can exercise their fiduciary duty to invest in the interests of their Scheme beneficiaries in order to meet their pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. There is a link between better governance and economic performance with empirical evidence supporting a positive relationship between good corporate governance and increased profitability. ESG issues can have a material impact on the value of financial assets and on the long term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns.

ESG factors tend to impact investment returns in the medium to long-term. Issues considered include, but are not limited to: corporate governance; succession planning; executive remuneration; human rights; human capital practices; climate change; reputational risk; transparency and disclosure; environmental performance management and the social impacts of corporate activity.

## STEWARDSHIP

As a shareowner the BCPP has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. Stewardship includes voting, monitoring and engaging with companies. As responsible shareholders a compliance statement will be developed to the UK Stewardship Code by the partnership. All Funds will be signatories to the Stewardship Code and we require all our fund managers, both internal and external, to be signatories or comply with international standards applicable to their geographical location.

Responsible investment and ESG considerations will be specifically referenced when conducting fund manager due diligence. They will be factored into the selection and appointment process, and included in investment management agreements. Managers will be expected to include ESG issues within their investment decision making process and take into account both financial and “extra-financial” considerations. A factor is "extra-financial" if it is likely to have an impact on business results and asset price performance but is not typically taken into account as part of investors’ financial analysis. Managers will be required to report back to the pool on their Responsible Investment activities on a regular basis.

## ENGAGEMENT

The best way to influence companies is through engagement. The Pool does not intend to disinvest from companies principally on social, ethical or environmental reasons. As responsible investors the approach taken will be to influence companies’ governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

The BCPP will seek to work collaboratively with other like-minded investors and bodies in order to maximise its influence. This will be achieved through membership of the Local Authority Pension Fund Forum and other investor coalitions.

## VOTING AND SHAREHOLDER RIGHTS

The BCPP regards its voting rights as an asset and will exercise them carefully to promote and support good corporate governance principles in every market in which it invests, where practicable. Voting policies will be agreed consistent with best practice corporate

governance standards. A specialist proxy voting advisor will be employed to assist and formulate such policies and facilitate voting. Policies will be reviewed annually. There may be occasion when an individual fund wishes to exercise its right to vote contrary to an agreed policy, and where possible a mechanism will be put in place to facilitate this. Where appropriate the Pool will consider co-filing shareholder resolutions. Voting activity will be reported quarterly and made available publicly on the Pool's website.

Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. Stock will be recalled prior to a shareholder vote only if the benefits of voting outweigh the benefits of stock lending, the resolution is contentious, the holding is of a size which could potentially influence the voting outcome or a shareholder resolution has been filed. Lending can also be restricted in these circumstances.

## **LITIGATION**

Where the BCPP holds securities which are the subject of individual or class action securities litigation, it will, where appropriate, participate in such litigation. The Pool will work with industry professionals to facilitate this.

## **COMMUNICATING AND REPORTING**

The BCPP will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. It will seek to do this through making publicly available RI and voting policies; publishing voting activity on the Pool's website quarterly; reporting on engagement activities and providing a summary of RI activities to the Supervisory Body, the partner funds and in the annual report.

## **TRAINING AND ASSISTANCE**

The BCPP will offer the partner funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

## CROSS POOL COLLABORATION INFRASTRUCTURE SUB-GROUP

### JOINTLY AGREED DEFINITION OF INFRASTRUCTURE

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- Substantially backed by durable physical assets;
- Long life and low risk of obsolescence;
- Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;
- Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;
- Returns to show limited correlation to other asset classes.

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, and social accommodation.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

Infrastructure service companies would not normally be included.

## CROSS POOL COLLABORATION INFRASTRUCTURE SUB-GROUP

### NATIONAL INFRASTRUCTURE INITIATIVE

A cross pool working group on infrastructure has been formed, with representatives from all the Pools. The working group has met over 3 days so far.

The officers representing the Pools agreed they are committed to working together, to determine current capacity and capability, share and develop experience and skills in infrastructure development, and explore options for a more formal National Initiative on Infrastructure Investing.

Discussions identified significant shared common ground and some key starting considerations:

- Pools and individual Funds within Pools are at different stages in terms of current strategic allocations to Infrastructure. Most Pool allocations range from 3 – 5% but individual Funds range between 0 – 10%.
- Current internal resources and capability varied across Pools. The majority of Pools' exposure is in funds managed by external managers. Exceptions are the Joint Venture between GMPF and LPFA and a few co-investments, club deals and bespoke investments made by some Funds.
- The range of funds invested in also varied across geographies (UK, Global), managers, and most significantly risk / return budgets (ranging from low risk, cash flow based investment to more development based, value added opportunities)
- Funds also have different environmental expectations in infrastructure
- Funds are generally increasing exposure to Infrastructure and see a National Initiative as providing access to the asset class for Funds who have previously seen barriers to investing, providing the risk / returns were in line with each of the Funds' expectations.
- Pools, whilst committed to the principle of a National Initiative for use when appropriate, may have additional requirements (e.g. risk appetites) for Infrastructure investments, either at a Fund or Pool level, and would want to
-

avoid being forced into specific investments. Thus different Fund appetites will probably require different solutions.

- Pools will support any initiative that excludes political intervention (either local or national) in making investment decisions.

## MARKET RESEARCH

The Cross Pool Collaboration Infrastructure Sub-Group has taken evidence from a range of infrastructure fund managers and from other large investors with experience in infrastructure.

- |                                   |                                       |
|-----------------------------------|---------------------------------------|
| ➤ Hermes                          | UK closed and open ended.             |
| ➤ Macquarie                       | Global closed ended.                  |
| ➤ JP Morgan                       | Global open ended.                    |
| ➤ Partners Group                  | Direct and Funds global closed ended. |
| ➤ PIP                             | UK Infrastructure Platform            |
| ➤ GMPF/ LPFA Joint Venture (GLIL) | UK direct                             |
| ➤ Telstra                         | Australia Pension Fund                |
| ➤ PGGM                            | Dutch Pension Fund                    |
| ➤ Ontario Pension Board           | Canadian Pension Fund                 |

Although the managers and funds were all different, many of the following themes were repeated in their presentations.

- There is an excess of capital in the market. The challenge is in deploying the capital well given the competition for deals.
- To be treated seriously by vendors, investors have to prove they are a competent and credible partner, which requires committed capital and governance structures that allow you to actively engage and deploy capital at speed.
- Infrastructure investing requires a considerable amount of time and expertise. Significant resources and capabilities are required to manage direct.
- Replicating the scale and expense of specialist managers' resources and expertise is not a credible option even over the medium term; knowledge transfer and greater involvement is however, both possible and desirable, as dedicated capital and resource are built.

- Many investors have gained experience by partnering with a fund manager and gain access to co-investments through that manager.
- Advantages to co-investments through fund managers include full access to due diligence and legal documents, as well as enhanced governance rights such as a seat on boards.
- Nonetheless, co-investors should not underestimate the level of time and commitment involved in the process.
- Experience has shown the path from investing with funds through to the capability of investing direct can take 10-15 years.
- Given the excess of capital any initiative should seek to collaborate with, and avoid competition with other managers as much as possible, particularly across the LGPS.
- There are concerns about the structures used by some infrastructure managers which can be relative short term and poorly aligned with investors. However, many managers are looking at alternative vehicles with offer a better fit, including “open” funds and “long term, buy and hold” vehicles.

The managers were generally clearly interested in working with a National Initiative, potentially seeing it as an important strategic client/partner. A number of ways of structuring this relationship would be possible. Managers are happy to share knowledge and experience with the Initiative, helping the initiative to build up their own expertise, and they would understand (and even expect) the National Initiative becoming more independent after a period of time.

## INTERIM CONCLUSIONS

After discussions, the working group felt that considerable progress had been made in a very short period of time and it was possible to identify some key conclusions and considerations to take forward to the next stage.

- It was felt that infrastructure investment by the Funds should be directed through the Pools. The Pools would have the responsibility to determine the arrangements which would suit their members the best, including the extent of any participation in the National Initiative. However, all Pools would at the very least benefit from sharing knowledge and would explicitly seek not to compete against each other.

- It is immediately evident that collaboration will be greatly facilitated through working as a small number of Pools rather than 89 Funds (indeed, collaboration on a particular opportunity was facilitated by one of the meetings!)
- It is also apparent that, when appointing external managers or investing in infrastructure funds, there will be considerable scope to achieve significant cost savings through collaboration, and this should be an early priority for the National Initiative. The difference between an individual Fund investing £20m in an infrastructure fund and the Pools working together to put £500m in the fund could see fee savings of 30% to 50%.
- Furthermore, as such a key investor, there will be considerable opportunity to improve governance rights, negotiate better/more appropriate structures (e.g. longer term vehicles, greater UK investments) and gain priority access to co-investment opportunities.
- In terms of direct investment in infrastructure, leading on deals is not considered an option outside the UK, and would only be feasible in limited circumstances within the UK, such as smaller or simpler projects, given current and near term future levels of appropriately skilled resources.
- Furthermore, given the level of interest in infrastructure, adding to the number of primary market participants and increasing competition may not be advantageous, and instead it may be better to work in partnership with others as much as possible.
- Thus, working actively with other investors and investing directly as a co-investor, is regards as the appropriate mechanism for the LGPS to make direct infrastructure investments. It is consistent with the experience of other investors as they built up expertise in infrastructure. As co-investor we would seek to be proactive and be of sufficient capability to ask and challenge – i.e. to be an intelligent shareholder / partner. Investing as a co-investor would enable us achieve considerable reductions in overall fees as well as greater control over the selection and management of our investments. The approach would enable us to build on and leverage existing resources in the market.
- Overall we expect a “hybrid” model to emerge across the Pools, with some investment in funds and some direct investment through co-investments and other bespoke structures, with widespread collaboration to reduce costs and

increase capacity. Funds would remain important, particularly in areas such as international exposure, specialist funds and development exposure.

- There will be a need for sufficient resources at both a Pool level and a national level to support more direct investment effectively, and we are aware that experienced infrastructure professionals are in high demand and expect to be well remunerated.
- It is important that appropriate delegations are in place to ensure decisions can be made quickly when opportunities arise. Individual Funds may have specific Investment criteria but typically will be managed by the Pools in association with the National Initiative, and any referrals back to Funds would be at an early stage and on a strategic basis rather than about detailed terms.
- There are a number of possible approaches and structures for a national initiative, and several market participants that we could work with. It is anticipated that the National initiative will need to procure the services of a number rather than just one in order to access all relevant areas of the asset class to satisfy the risk/return requirements of individual Funds and Pools.

## NEXT STEPS

The Cross Pool Collaboration Infrastructure Sub-Group has agreed to continue meeting through the rest of the year to develop a National Initiative further. Key next steps are likely to consist of the following:

Options identification	Identify the various specific options which could in theory provide the capacity and capability we need.
Options analysis	Determining requirements in terms of legal structures and vehicles, regulatory requirements, governance etc., to support the options, together with analysis of costs, advantages and disadvantages.
Option selection	Identification of key criteria to assess options. Determination of the preferred options to take forward, including possibly combining options.
Initial implementation	Developing the necessary structures to take the Initiative forward and start implementation.
Partnership procurement	Selecting the partners to work with going forward, which may involve a formal EU procurement or other structured

	search.
Operation	Start using the established initiative to make investments in this space.

One challenge for the National Initiative is that pools that have more than a couple of Funds in them cannot go too far until such time as the Pools themselves are properly constituted and regulated. This means that development of the national Initiative may lag the development of the Pools by some months, however the group will seek to go as far as practically possible subject to these limits.

## SUMMARY

The cross pool group has examined various options for investing in infrastructure and has developed a practical way forward which recognises market realities but would support an enhanced capacity and capability in infrastructure.

The group has recognised the different levels of expertise and capability that are likely to exist in the pools from the outset and as such that any national initiative must be able to accommodate these differing levels of resource in its governance structures.

This means that any national initiative would need to address three governance participation levels:

- Passive governance rights – the pool is committed to individual deals unless it opts out.
- Active governance rights – the pool will review each deal on its merit and take an active decision to participate or not.
- Active assessment of individual projects i.e. designated resource to undertake due diligence; asset sourcing; asset management; etc.

The group considers there to be exciting opportunities to collaborate and increase capability so the LGPS can identify good infrastructure investment opportunities which meet the financial and other needs of the individual Funds.

Given the positive initial discussions; current understanding / commonality across the Pools and similarities for future aspirations in this area, continuing to progress this initiative is endorsed by the Partner Funds of BCPP. BCPP is very supportive of the work of the cross pool group and looks forward to the group continuing to develop collaboration and work towards a national initiative in the next stage of the pooling agenda.