

# Public Document Pack



**PENSIONS PARTNERSHIP**

**BCPP JOINT COMMITTEE**

## **AGENDA**

**Venue:** North Yorkshire CC, Grand Meeting Room, County Hall, Northallerton, DL7 8AD

**Date:** Friday 20 October 2017

**Time:** 11.00 am to 3.00pm

### **Membership:**

#### **Chair:-**

Cllr John Weighell                      North Yorkshire Pension Fund

#### **Vice Chair**

Cllr Sue Ellis                              South Yorkshire Pension Fund

#### **Membership:-**

Cllr Doug McMurdo	Bedfordshire Pension Fund
Cllr Mel Worth	Cumbria Pension Fund
Cllr Mark Davinson	Durham Pension Fund
Cllr John Holtby	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Jeff Watson	Northumberland Pension Fund
Cllr Tim Evans	Surrey Pension Fund
Cllr Steve Bloundele	Teesside Pension Fund
Cllr Eileen Leask	Tyne & Wear Pension Fund
Cllr Bob Stevens	Warwickshire Pension Fund

## **Terms of Reference of the BCPP Joint Committee**

1. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

### **1.1 First phase – Period to April 2018 or operational commencement of the BCPP Pool (whichever is the later)**

- 1.1.1 To provide support and guidance to the work being undertaken by the Officer Operations Group to give effect to the pooling arrangements.
- 1.1.2 To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with the Authorities to scrutinise and monitor project management arrangements and proposals for the appointment of advisers by the Authorities.
- 1.1.3 To oversee costs to deliver the BCPP Pool, obtaining approval from individual Authorities where necessary.
- 1.1.4 To monitor and scrutinise responsibilities for delivery of the project and relevant support arrangements.
- 1.1.5 To oversee and provide feedback on positions and conclusions deriving from work streams adopted by the Officer Operations Group.
- 1.1.6 To formulate processes and policies for the appointment and termination of membership to the Joint Committee.
- 1.1.7 To propose and confirm contracts and policies required by the Authorities to commence transition to the BCPP Pool arrangements.
- 1.1.8 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.
- 1.1.9 To consider the initial range of sub-funds to be provided by the ACS and to make recommendations to the BCPP Board for the creation of those sub-funds.
- 1.1.10 To review and comment on the draft ACS prospectus and supporting documents on behalf of the Authorities prior to the Financial Conduct Authority approval.

## **AGENDA**

<b>Item</b>	<b>Subject</b>	<b>Page</b>
1	<b>Apologies for Absence/Declarations of Interest</b>	
2	<b>Minutes of the meeting held on 6 June 2017</b>	1 - 10
3	<b>Member Briefing - Formal welcome to the Chair/CEO (in waiting) &amp; consideration of their vision for the future of BCPP Ltd - Chris Hitchen, Chair, Rachel Elwell CEO (in waiting)</b>	
	<b>Exclusion of the Public and Press</b>	
*4	<b>Update on Executive &amp; Non-Executive Appointments - Ian Bainbridge/Clare Gorman (Exemption Paragraph 3)</b>	11 - 28
*5	<b>Update on General Staff Terms and Conditions (including pension offering &amp; associated guarantee requirements) for Employees of BCPP Ltd (new &amp; transferring staff)- Nick Orton (Exemption Paragraph 3)</b>	29 - 40
	<b>At this point the meeting will re-open to the public and press</b>	
6	<b>Amendments to BCPP Board Structure - David Hayward/Chris Hitchen</b>	41 - 48
	<b>Lunch 1:00 - 1:30</b>	
7	<b>Update on Financial Conduct Authority Permissions Submission - Fiona Miller</b>	49 - 64
8	<b>Update on Project Delivery and Implementation Budget - Fiona Miller</b>	65 - 88
9	<b>Update on Development of Target Operating Model and Transition Plan - Mark Lyon</b>	89 - 100
10	<b>Proposed BCPP Ltd Responsible Investment Policy and Corporate Governance &amp; Voting Guidelines - Mark Lyon</b>	101 - 118
11	<b>Feedback on National Working Groups - Jo Ray</b>	119 - 124
12	<b>Standing Item - Update on Emerging Matters - Fiona Miller</b>	Verbal Report
13	<b>Any Other Business</b>	

## Date of Future Meetings

14

- Tuesday 16<sup>th</sup> January 2018
- Tuesday 13<sup>th</sup> March 2018
- Tuesday 10<sup>th</sup> July 2018

## Close of Meeting



## Minutes of the BCPP Joint Committee Tuesday 6 June 2017 - Northallerton

### **Present**

#### **Members**

Councillor John Weighell (Chair)  
Councillor Steve Bloundele, Councillor Mark Davinson,  
Councillor Sue Ellis, Councillor Tim Evans, Councillor John  
Holtby, Councillor Eileen Leask, Councillor Doug McMurdo,  
Councillor Eddie Strengiel, Councillor Bob Stevens, Councillor  
Jeff Watson and Councillor Mel Worth

#### **Officers**

Ian Bainbridge, Stephen Barrett, Paul Campbell, Matt Dawson,  
Clare Gorman, Mark Lyon, Fiona Miller, Nick Orton, Geoff  
Reader, Phil Triggs, Martin McCarthy, Amanda Alderson and  
David Hayward

**Statutory Officer Representatives** Julie Crellin and Gary Fielding

### **1 APPOINTMENT OF CHAIR AND VICE CHAIR**

The Committee confirmed the appointments of Councillor John Weighell (Chairman) and Councillor Sue Ellis (Vice Chair), for the ensuing year, following voting at the conclusion of the last meeting of the Member Steering Group held in York on 24 March 2017.

### **2 WELCOME AND INTRODUCTIONS**

The Chairman welcomed everyone to the inaugural meeting of the BCPP Joint Committee and in particular the newly appointed members, Councillors Eddie Strengiel, Jeff Watson and Tim Evans.

Councillor Mel Worth outlined the current position in Cumbria and stated he would continue to represent his Authority until such time a formal appointment was made which was likely to be at the end of June.

The Chairman apologised for the omission of Councillor Davinson's name and the Durham Pension Fund from the membership list, which would be rectified immediately.

**3 MINUTES OF THE MEETING OF THE MEMBER STEERING GROUP HELD ON 24 MARCH 2017**

The minutes of the final meeting of the Member Steering Group held on 24 March 2017 in York were considered and approved as a correct record.

**4 UPDATE ON PROJECT DELIVERY AND IMPLEMENTATION BUDGET**

The Programme Lead, Fiona Miller updated the Committee on the high level activities undertaken since the last meeting towards the delivery of phase three of the BCPP implementation plan - the establishment of a fully regulated asset management company that was ready to accept the transition of assets.

The report outlined the high level activity across the three key work streams. A more detailed analysis of activity is provided where appropriate through the individual work-stream update reports elsewhere on today's agenda.

Discussions had taken place with representatives from DCLG where Officers had confirmed slippage from April to a proposed June 2018 as the 'go-live' date for project delivery, senior executive recruitment were in the final stages with the Chair and CEO appointment expected by end of July, and that the procurement of all other service providers was ongoing to plan. Officers from DCLG confirmed they understood the slippage due to the local elections and were supportive with the progress being made on implementation of the various workstreams and the appointment timelines, and would report as such to the new Minister once appointed.

It was confirmed that CEM had won the LGPS framework contract to undertake analysis of benchmarking costs. On this basis individual Funds were asked to seek the approval of their respective Authority's in supporting the appointment of CEM to their Funds for this service. If all Funds in BCPP take up this service on an individual basis CEM will provide consolidated pool data for submission to DCLG BCPP Ltd has a requirement to report to DCLG on savings and the Committee agreed that all partner Funds using CEM would meet the requirement to have available to them benchmarking information which was robust and provided a consistent cost base across the country.

Clarity was sought in regard to the current projected overspend of £175,000. It was confirmed this was in relation to the increase in salaries approved by Members for the appointment of Non-Executive Directors and additional recruitment costs.

It was confirmed that work on the Operating Model workstream had slipped slightly, however Members would be kept briefed as to progress and key issues as they arose.

Following a change in membership of the Joint Committee following recent local elections in several of the Funds, Members agreed the proposed membership of each workstream.

RESOLVED

Members:-

1. approved the high level BCPP Project Implementation Risk Register and mitigating actions proposed by the Project Team.
2. noted the increase in the projected implementation budgetary outturn.
3. noted the changes to the Joint Committee Membership following the Local Government elections and confirmed the proposed allocation of Members to each work stream.
4. noted the high level project activity during this period.
5. approved the proposed activities to be completed by the project team and sub-groups over the next period.
6. agreed to obtain approval from their respective Funds to appointing CEM to undertake benchmarking analysis in respect of costs on behalf of the Pool.

## **5 FEEDBACK ON NATIONAL WORKING GROUPS**

Fiona Miller updated the Committee on officer attendance at meetings of the various national working groups and the work taking place therein.

In respect of the Cross Pool Collaboration Group Councillor Quinn had attended as a representative of the Scheme Advisory Board to put forward the suggestion that a Member Working Group be established to run alongside the officer group to help wider education and engagement across the LGPS on the issue of pooling. The Committee supported this proposal and agreed the Chair and Vice Chair should represent BCPP Joint Committee (as per the role profiles for these position) in the formation and future operation of such a body.

RESOLVED

Members:-

1. noted the report
2. supported the suggestion from Councillor Quinn that a Member Cross Pool Information and Collaboration Group be created and that the Chair and Vice Chair work with officers on determining how best this might operate.

## **6 UPDATE ON COMPLETION OF GOVERNANCE DOCUMENTATION AND INCORPORATION OF BCPP LTD**

David Hayward reported on the final implementation requirements agreed by respective partner authorities within BCPP which would support the establishment of the necessary corporate structures required in the constitution of the BCPP Ltd moving forward. It was confirmed that all references to the Sheffield City Region Combined Authority Bus Fund had been removed.

A copy of the Articles of Association would be circulated to all Fund members.

RESOLVED

Members noted the contents of the report.

**7 REFINEMENT OF BCPP CORPORATE ENTITY AND TRANSITION COST SHARING PRINCIPLES**

Fiona Miller presented the latest version of the cost sharing principles document for Members consideration. It was reaffirmed that the overriding principle was to ensure an equitable cost sharing framework be established which was in accordance with the initial submission to DCLG in July 2016.

The Committee satisfied themselves as to the process for allocating initial costs were any further Administering Authorities to be admitted to the BCPP. It was confirmed that through the shareholder reserved matters, that 100% agreement would be required prior to the admittance of a further Authority. Funds who entered at inception would be in a position to reserve the right to request a proportionate “late joiners fee” be applied.

Fiona agreed to provide a further update on the document, recognising it remained in transition, to the next meeting.

RESOLVED

Members:-

1. noted the further refinements to the BCPP cost sharing principles document.
2. approved the proposed further work to be undertaken by Officers in completing the principles, specifically in regard to allocation of transition costs and assets classes outside securitised markets.
3. approved in principle the refined cost allocation principles as at June 2017 (Version 3), set out at Appendix 1 to the report.
4. requested a further update report be presented to the next meeting.

**8 DEVELOPMENT OF TARGET OPERATING MODEL AND ASSET TEMPLATE PROGRESS**

Mark Lyon, Operating Model Sub Group lead updated the Committee on the work which had taken place since the last meeting (Steering Group) on 24 March 2017 and next steps in the process.

It was pleasing to report that all advisors were now in place and following a scoping day involving all project leads from the BCPP Project Team, a high level project plan had been developed.

A further meeting of the Officer Operations Group was to be held during June to resolve outstanding issues in relation to the more complex investment sub-funds so that the asset template can in turn be incorporated into the design of the Operating Model and the future structuring of the investment sub-funds.



It was reported that there had been positive development in regard to MiFID II in relation to administering authorities, simplifying the opt-out process enabling LGPS funds to continue to access the widest range of possible investments.

RESOLVED

Members:-

1. noted progress to date and supported the outlined plan to progress the work on the Operating Model Workstream including the design and implementation of the operating model and the procurement of suitable service providers for the next period.
2. approved the changes to the asset allocation template and supported the plan to progress the work on the asset allocation template (notably the Multi-Asset Credit and Property asset classes) and associated transition planning for the next period with the Officer operations group, advisors and the sub-group.
3. Members approved that “legacy” investments (i.e. investments where it was not possible or cost effective to transfer into BCPP) would continue to be managed at the individual Fund level. This decision would be reviewed post-full implementation.
4. noted the progress and support of continued liaison with the FCA and the Investment Association in order to ensure that the opt-up process for administering authorities was relatively straightforward.

## 9 UPDATE ON PROPERTY SEARCH

Nick Orton updated the Committee on the latest position in regard to the search for office accommodation for BCPP Ltd.

Working in conjunction with a property agent, it was confirmed that officers from the Project Team had viewed 22 properties in the city centre of Leeds in addition to three out of town properties located on business parks.

The report provided Members with an overview of the properties viewed, size of accommodation, acknowledging the brief provided. The Committee agreed the outcome of the revised list for second viewing and asked that Members were kept informed of further progress.

Councillor McMurdo highlighted the requirement to ensure that the preferred option would accommodate the ICT requirements of the Pool, took account of capacity in respect of anticipated growth aligned to such principles as home working and reiterated his wish to see this resolved as quickly as possible to ensure a smooth transition and ensure the Pool was able to go live when required to do so.

RESOLVED

The Committee noted the latest position in regard to the acquisition of a property for BCPP Ltd and agreed that the Members would be kept informed of further progress.

10 **CONSIDERATION OF OPTIONS FOR TERMS AND CONDITIONS OF EMPLOYEES OF BCPP LTD**

Nick Orton presented a report outlining options for the terms and conditions for employees of BCPP Limited, including a proposal on the type of pension provision that should be offered to new recruits to the company.

The Committee acknowledged that in order to ensure BCPP Limited was able to recruit and retain the skilled staff it required to function effectively, it should offer staff starting a new contract with the company the choice between access to the LGPS or access to a defined contribution pension scheme and higher take-home pay. This should be structured to ensure the overall cost to the company was equivalent under either option. Councillor McMurdo confirmed that this work was being closely monitored by workforce representatives and as such it was vital that TUPE arrangements were clearly communicated to affected staff and that options available to any member of staff involved in such a process, for example relocation, be properly explored such that the right calibre of individual was encouraged to consider working with BCPP Ltd. Councillor Ellis thanked the Project Team for their time in visiting colleagues in South Yorkshire to outline the work which was taking place in relation to this matter.

The Committee acknowledged the requirement to maintain a certain degree of flexibility in establishing terms of conditions, so as to provide the future executive team with options to enable them to attract and retain the right candidates for positions within the BCPP Ltd.

It was acknowledged that work was progressing as required in regard to TUPE transfer for staff from the internally managed funds.

**RESOLVED**

Members:-

1. agreed to progress the proposal that BCPP Limited should participate in the Local Government Pension Scheme (LGPS) as an 'open' admission body, and should offer new employees (as well as employees transferring from the internally managed Funds) access to the LGPS, with the exception of senior staff. Final approval would be sought from the shareholders once all issues were resolved. Senior staff included all executive directors and any staff paid at more than a specified level (initially set at £120,000 a year whole-time equivalent).
2. agreed that in order to provide a flexible offering that was attractive to a range of recruits across the public and private sector, employees should also be offered the alternative of employer contributions to a defined contribution pension scheme and additional salary instead of participation in the LGPS. This was on the proviso that the overall cost of employment was not increased as a result of this flexibility.

3. agreed that a package of other terms and conditions should be provided for new employees to BCPP Limited which were broadly similar to those typically provided within local government. Suitable external advice would be sought when determining the detail of the terms and conditions and the overall value of the remuneration packages to ensure they were appropriate and competitive.
4. Agreed the project team should draft and circulate an LGPS guarantee that all Authorities would be required to provide, working on the general principle that any liabilities at the point of transfer would remain the responsibility of the original Fund, but liabilities built up going forwards would be underwritten by all partner Funds in an equitable manner.

## **11 BCPP COMPANY COMMITTEE STRUCTURES AND THE ROLES OF NON-EXECUTIVE DIRECTORS (NEDS)**

David Hayward presented a report setting out a proposal for the internal committee structures to be adopted by BCPP Ltd and how these in turn would fit within the overall corporate governance structure of the partnership.

The Committee discussed the complexities of being a wholly owned company and in turn the fact that neither public nor private regulatory frameworks took precedence. Whilst a challenge for the executive team when established, key to this must be to ensure that within the parameters of both regulatory regimes, partner funds were not at risk of financial or reputational damage.

The Committee further considered the Executive/Non-Executive structure, NED involvement on the BCPP Risk and Audit Committee and Remuneration and Nomination Committee. Terms of reference and membership of all BCPP Ltd committees would form part of the submission to the FCA.

RESOLVED

Members noted the contents of the report and in particular the requirement when appointing non-executive directors and the Chair for the BCPP Ltd operating company, the need to bring together the governance principles of local government aligned to the developing controls applied to the regulated financial services sector.

## **12 MEMBER INFORMATION BRIEFING**

The Committee received a presentation from Andrew Glessing (Director - Head of Compliance) Alpha FMC on governance requirements for BCPP Ltd as an FCA regulated entity (including Committee Structures and the role and skill sets required of the Non-Executive Directors of BCPP Ltd and how these would feed into the FCA application process).

RESOLVED

The Committee thanked Andrew for an informative presentation.

**13 VERBAL UPDATE ON EMERGING MATTERS**

Councillor McMurdo raised an issue about LAPFF membership and how this might operate post pooling. He agreed to liaise with Jane Firth, responsible investment lead at LAPFF to discuss with them on behalf of BCPP a means by which this might best operate going forward.

It was agreed that further consideration be given to the Pool taking membership of LAPFF. It was confirmed that all participating Funds were already in membership.

The Committee was reminded it was required to seek individual Authority approval to appointing CEM to undertake benchmarking cost analysis on behalf of their Funds which could then be consolidated to provide the required Pool information to DCLG.

RESOLVED

All points were duly noted.

**14 ANY OTHER BUSINESS**

It was agreed that a schedule of meeting for the BCPP Joint Committee would be produced avoiding where possible clashes with individual Authority meeting schedules.

The Committee was asked to promote the New Member Training Course organised for all Pensions Committee and Local Pension Board Members within the BCPP Pool taking place on 11-12 September in York.

RESOLVED

All points were duly noted.

**15 DATE OF NEXT MEETING**

The Next meeting of the Committee would take place on Tuesday 5 September at 11am, at County Hall, Northallerton.

**16 EXCLUSION OF THE PUBLIC AND PRESS**

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

## 17 UPDATE ON EXECUTIVE SEARCH AND REMUNERATION

Officers who had expressed an interest in the roles under consideration left the meeting at this stage and took no further part in proceedings.

The Committee considered the appointments process to date and the engagement with the consultants employed in supporting the process.

Information in relation to the recruitment and remuneration of executive and non-executive posts had been gathered and had helped shape what BCPP Ltd would require in terms of its corporate executive structure.

BCPP Ltd will be run by a board of directors. Directors are appointed and removed by the agreement of the shareholding administering authorities.

The Member Steering Group had agreed to recruit to the following posts on the board:

- Chief Executive Officer (CEO);
- Chief Investment Officer (CIO);
- Chief Operating Officer/Chief Financial Officer (COO/CFO);
- Three independent non-executive directors (NEDs), one with the role of Chair and casting vote to ensure the NEDs have overall control of the Board.

The People Sub Group had met on 25 April to progress a number of these issues, which were set out at Appendix B to the report. The Committee discussed in particular the requirement to reconsider the remuneration of the BCPP Ltd Non-Executive Chair and Directors, the requirement to make a slight revision to the recruitment timetable and introducing a two-stage interview process.

It was confirmed that once the interview process had been concluded, formal shareholder approval (administering authorities) would be required.

### RESOLVED

Members:

1. endorsed the decisions taken by the People Sub Group meeting held on 25<sup>th</sup> April 2017, as summarised in Appendix B to the report.
2. agreed the revised timelines for the recruitment process as set out in sections 7 and 8 of the report to ensure that, once formally appointed, the Chair and CEO of BCPP Ltd could be fully involved in the recruitment process for other key BCPP Ltd posts.
3. agreed a two stage interview process should be adopted.

CHAIR

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## BCPP Joint Committee

**Date of Meeting:** 20<sup>th</sup> October 2017

**Report Title:** Amendments to BCPP Board Structure

**Report Sponsor:** BCPP Limited Chair – Chris Hitchen

**Report Author:** Governance Sub Group Lead – David Hayward

### 1.0 Executive Summary:

1.1 It was always the intention of the Partner Funds to give the appointed Chair and Executives the opportunity to consider and shape the corporate structures which make up the company side of the pension pool. A review has been undertaken of the composition of the Board and this paper is brought forward to allow the Joint Committee to consider and comment on proposed changes to the composition of the Company Board. Any additional appointments will remain a matter for shareholders to approve.

### 2.0 Recommendation:

2.1 That Members consider the report and adopt the following recommendations for the reasons set out in detail in this paper.

2.1.1 That the Chief Investment Officer Role holder no longer be asked to sit on the BCPP Board and that this should be reflected in the ongoing recruitment process.

2.1.2 That the principle of appointing two shareholder directors be adopted and that officers be asked to work with the Governance Sub Group to bring a report back to Joint Committee with suggestions for the method of selection of the said directors.

2.1.3 That the Board be requested to invite the Chair and Vice Chair of the Joint Committee to attend Board meetings with full participatory rights save for formal voting until such time as shareholder directors are formally appointed.

### 3.0 Background:

3.1 At present BCPP has four directors who were appointed as an interim measure to allow the company to be formed and principally to undertake procurement. There were drawn from senior staff in participating authorities.

3.2 The recruitment of the Board has continued over the summer and we are at a point where five Board Members have been identified and are about to be formally appointed at which point the four interim directors will resign. The five identified directors are:

Chris Hitchen	Chair
Enid Rowlands	Non Executive Director
Tanya Castell	Non Executive Director
Rachel Elwell	Chief Executive Officer (CEO)
Fiona Miller	Chief Operating Officer (COO)

3.3 When the corporate structure and governance was initially considered it was intended that there should be six directors, the additional member of the board being the selected Chief Investment Officer (CIO). It was always recognised that the Independent Chair would have views on the Board Structure and it was understood that there could be a review once that position was in post.

3.4 The Shareholder Agreement and Articles comprising the constitutional arrangements refer to this as the expected configuration and place a maximum number of Board Members at 8 and a minimum of 4. The Articles also provide that there should be a voting majority of non executive board members which it was envisaged would be facilitated by the Chair having a casting vote. The Corporate Governance Code (which as recognised best practice in matters of corporate governance Members have previously determined that as shareholders we should insist the company adhere to) goes a little further than this in requiring an independent non-exec majority which would also be secured by the structure originally envisaged.

3.5 When this issue was raised in the course of setting up the Company it was argued that the controls given to shareholders and the supervisory role of the Joint Committee were sufficient to maintain the required degree of control over the Company (to ensure all “Teckal” requirements could be met) without impacting on the chosen board’s ability to successfully manage the Company.

3.6 However, it is the view of the Chair of BCPP that direct shareholder involvement in the Board would be invaluable, particularly at this critical stage in the company’s development. Unity of purpose and alignment of interest are vital if BCPP is to win and retain the confidence of its clients and shareholders, and, even more importantly, build a successful long-term-oriented investing institution. A shareholder voice in the Boardroom would greatly mitigate the risk of the Company setting itself at odds, however unintentionally, with stakeholder concerns, and would greatly assist mutual understanding. Shareholder involvement would also mitigate a concern that

the Board as currently structured may not have sufficient numbers to populate the necessary committees whilst minimising conflicts of interest.

- 3.7 The Chair and CEO of BCPP have also reached the view that in our context it is preferable for the CIO not to be on the Board. The CIO has a very important role but some separation between the CIO and the Board is helpful both for governance and for operational reasons.. To address these concerns consideration has been given to the following two potential changes to the company executive / non-executive corporate governance structure.

### **3.8 CIO to Sit Outside the Board**

- 3.8.1 The first alteration under consideration is whether the CIO has to be or indeed should be a Director. It is the view of the Chair of the Company and the CEO that it would be more appropriate for the CIO to sit outside the Board structure and to be left to concentrate on the not inconsiderable task of getting all of the eligible assets into the Pool as quickly as possible and generating good long-term performance. It is now understood that it is common in asset management companies for the CIO not to sit on the Board. One reason for this being that the Board retains the ability to scrutinise the performance of the CIO and his team within the forum of the Board without being obliged to have the CIO in attendance throughout the meeting. He or she would of course present to the Board and indeed to the Joint Committee when and as required. It may be helpful to note that other organisations such as LGPS Central and Railpen Investments have followed the same approach.

- 3.8.2 This is relatively straightforward in constitutional terms. The removal of an executive director from the proposed Board composition does not require any constitutional change. In practical terms it does pose a slight risk to maintaining a quorum at board meetings (where four directors are required to be present to create a quorum) but this may be ameliorated by the second recommendation. Legal advice has been given that it would not breach the terms of the shareholder agreement in spirit or in letter if the decision was made not to have the CIO on the Board.

- 3.8.3 This is a decision that could be made by the Board but it is thought appropriate that the matter be discussed in Joint Committee and then informal approval be sought from shareholders (through s151 officers) before the CIO recruitment piece is completed so that candidates are properly sighted on the role.

### **3.9 Options for Participation of Shareholder Directors**

- 3.9.1 After consideration it is thought that it would enhance the effectiveness of the Board were it to enjoy direct links to its shareholders, being the administering authorities through the Members who represent them both on the Joint Committee and generally. It is therefore suggested that one or two directors be drawn from that group (or such other pool as Members advise is appropriate) to sit on the board with full standing including voting rights. It is

believed that this will assist in keeping the Joint Committee and the Partner Funds sighted on the governance of the Company and will ensure that a proper connection is maintained with shareholders at all times. This will also ensure that the board is fully aware of stakeholder views and requirements, and operates in the spirit in which the partnership has been formed i.e. adhering to a public sector ethos but promoting the “best in breed” professional and risk culture of the private sector financial environment. This is to be balanced with the requirement that the company should be unfettered in its ability to work independently for the benefit of its shareholders.

3.9.2 The proposals below are considered in the light of seeking to achieve the above aims and i.e. to ensure that shareholder / client views can be taken into consideration at policy formation and decision stage and to add numerical strength for the purpose of manning committees.

3.9.3 The first question to be addressed in considering this proposal is whether those directors would be considered to be independent directors within the meaning of the Code. The generally accepted view is that where a director has a direct linear relationship with a shareholder then they cannot be considered to be independent and could not be counted as such in determining compliance with the Corporate Code. Of course the Code operates on “comply or explain” principles and it is believed this is an “explain” situation given the particular purpose of the pooling vehicle and the relationship between shareholders and the Company. Any explanation would also have to address the relationship of the shareholders to the Company and their particular Administering Authority. Given the above there are options available to maintain the independence of the Board such as varying the number of directors, and where they are drawn from, away from the original intentions of the shareholders as considered and approved by the Authorities in spring of this year. The scenarios are:

<b>Executive Directors</b>	<b>Non-Executive Directors</b>	<b>Shareholder Director</b>	<b>Observer Shareholder Reps</b>	<b>Total Board Number</b>	<b>To Meet constitution Test Met</b>
<b>Current Structure</b>					
3	3	0		6	Chair has casting vote
<b>Alternative Options</b>					
2	3	1		6	Chair has the casting vote
3	4	1		8	Additional independent required

2	4	2		8	Additional independent and Chair retains casting vote required
3	5	2		10	This require 5 non-execs to maintain independent majority with Chair retaining casting vote. It would breach maximum board size and would require the Articles to be amended.
2	3	2		7	This would not allow for an independent NED majority and hence would not be compliant with the Corporate Code. It could be justified under explain rather than comply in fitting the ethos of the company but it avoids the creation of a dominant voting block.

3.9.4 Notwithstanding the position on independence, the view of the Chair of BCPP is that a “2+3+2” Board is well-suited to BCPP’s needs and would represent good governance. No bloc of directors would be either dominant or isolated, and independent non-Executive Directors would still typically hold the balance of power. This structure is similar to one he has seen work well at Railpen Investments.

**3.10 If nevertheless the shareholders were uncomfortable with the proposal, there are two further possibilities that could be considered.**

3.10.1 It is possible that a “shareholder” or LGPS director could be found from outside the shareholder Authorities who could be deemed to be an independent non exec. If this were considered to be desirable they

could be added to the Board without impacting on the mathematics of maintaining an independent majority. They would also be available to chair any committees. It is questionable whether such a director would give the desired “buy-in” which is being sought by the proposed amendments or that a Member director would achieve.

3.10.2 The Board could invite shareholders to send representatives to Board meetings on a full participatory basis save for voting. It was already contemplated that the Remuneration and Nomination Committee would invite such participants but this could be extended to the full board. This would have the advantage of not requiring constitutional change and would achieve most of the desired “buy in” outcome. It would also be a relatively more flexible solution allowing for rotation and alternates to be used.

### 3.11 **Implications for Shareholder Directors of holding corporate office**

3.11.1 **CF2 Qualification** – All directors in the Company will be subject to FCA approval. The posts are classed as CF2 roles.

3.11.2 The roles are regulated as the holders are classified as having a significant influence over a firm’s conduct.

3.11.3 To ensure firms are effectively governed and able to deal with their customers fairly, only individuals with the appropriate skills, capabilities and behaviours may be appointed to these positions. The FCA insists that firms must have balanced and effective boards, with a competent executive team, so any appointment is considered in that light. The FCA assess applicants for key positions to make sure they are up to the job and that they carry out their role effectively. They take a risk-based approach to approving individuals who perform controlled functions. Any director has to understand and comply with the Statements of Principle and Code of Practice for approved persons.

3.11.4 For significant influence functions (SIF) in higher-impact firms, the FCA will interview where appropriate. Applicants do not have to sit a formal exam, but the FCA do expect them to be able to demonstrate experience, competence and knowledge in the function that they apply for. This will set a standard for any shareholder director and any appointment would have to be contingent on achieving the required registration. Registration is undertaken through the firm and is done online.

3.11.5 Any appointment would have to be contingent on achieving and maintaining registration.

3.11.5 Member directors would also be expected to attend appropriate training for non-executive directors.



- 3.11.6 **Personal Liability** – Without wishing to be alarmist and noting that the Company will maintain a Director and Officer Insurance policy, it remains the case that there are circumstances wherein a Director can be held responsible for the actions of the Company. This would apply to any shareholder director as it would to any other office holder. It is worth noting that as an international investor the Company will have assets based in jurisdictions where the corporate veil is more readily raised than in the UK.
- 3.11.7 **Selection / representation** – At present there is no mechanism for the appointment of shareholder directors and no consideration has been given to their selection. It is considered that this would be a matter for shareholders to discuss. Any appointment would be technically a matter for the Company although it is unlikely that the Board would seek to go against the wishes of the shareholders which are typically represented through the Joint Committee. The Chair of BCPP has an interest in ensuring an appropriate mix of skills and personalities on the Board so some form of consultation as part of the process would nevertheless be helpful. It is suggested that the Officer Group be instructed to work with the Governance Sub Group to consider how the appointments might best be achieved and to bring a report back to Joint Committee with appropriate recommendations.
- 3.11.8 **Options might include:**
- a. Members could nominate the Chair (and Vice Chair) of the Joint Committee for the time being.  
  
There is a question as to whether it is appropriate to have the Chair of the Joint Committee which is established to scrutinise the Company as a member of the company board and whether there is an implicit conflict of interest. The original Chair election did not contemplate the Chair acting as a director and it may be argued that the election could / should be re-run with that in mind.
  - b. Members of the Joint Committee could vote for and nominate a Member or Members independently of the Chair position from the Joint Committee. The same conflict arguments apply but are slightly diminished if the Director is not chairing the Joint Committee.
  - c. Members and / or shareholders could vote on an open candidacy basis (including persons outside the Joint Committee) for nominee(s) – this could theoretically include officers as well as Members and might address the conflict issue if someone with no connection to a single shareholder was selected.
- 3.11.9 It is worth noting that we have seen legal advice from leading counsel that a) notes that the statutory provisions relating to s151 officers and the associated guidance from CIPFA strongly suggests that it is
-

inappropriate for a s151 officer to act as a director in a local authority company because they cannot guarantee to act in the best interests of the Company where they owe an overriding duty to the Authority where they hold office; and b) that while not detailed in their statutory responsibilities the same could be considered to apply to other senior local government officers such as chief executives and heads of pension funds.

3.11.10 If the decision is taken to appoint an additional director or directors such appointment be subject to 100% shareholder approval in the first instance as is the case with all other director appointments and any subsequent appointment would require 75% approval in line with the shareholder agreement.

3.11.11 **Consequences for One Fund One Vote** – If a Member were selected from one Member authority it would have a potential impact on the one member one vote principles which have applied to date. It would have to be accepted by the shareholders that a single person with affiliations to one Authority / Fund could represent all of the funds on an equal basis. It is recognised that this matter has not been the subject of a discussion in Joint Committee to date. It is believed that the closer relationship between shareholders and the Company that would be achieved by Board representation provides a greater benefit than this perceived issue.

3.11.12 **Remuneration** – We have investigated the implications of paying an elected Member from the Joint Committee to undertake this role and officers are of the view that that it can be a paid role as the appointment is not being driven by a single Authority. There is no allowance in the budget for this role at present although the amount may be seen as de minimis. It should be noted that the Chair and Vice Chair of the Joint Committee are not paid and any expenses are claimed through their Authority and not from the Company. If a shareholder director was created as a paid role it would be funded through the Company.

## 4.0 Conclusions

4.1 It is concluded that following a review of arrangements that there are significant benefits to the Company of both of the recommended changes to the board structure and Members are asked to adopt the recommendations set out above.

### Report Author:

David Hayward : David.Hayward@southtyneside.gov.uk

**Further Information and Background Documents:** N/A



## BCPP Joint Committee

**Date of Meeting:** 20<sup>th</sup> October 2017

**Report Title:** Update on Financial Conduct Authority (FCA) Permissions Submission

**Report Sponsor:** Project Implementation Lead – Fiona Miller

### 1.0 Executive Summary:

- 1.1 BCPP Ltd will seek Financial Conduct Approval (FCA) regulatory advice approvals covering several permission types to operate as necessary to provide the required services to its client funds. The regulatory approvals that BCPP Ltd will be seeking have been developed over the last several months as the BCPP Ltd Target Operating Model and Asset Template offering have been developed and agreed. Substantial legal advice (Eversheds) and regulatory / operational advice (Alpha FMC) have been received in the design and completion of these processes and preparation of required documentation and policies.
- 1.2 From the submission date the FCA have a maximum of six months to complete their processes and therefore providing the submission is lodged with the FCA mid-November this should enable the target go-live date of June 2018 to be met. If there are any issues with the application then the go-live date will be compromised.
- 1.3 This paper seeks to advise Members of the current status of progress towards submission of the documentation, the associated risks, and to assure Members that, while the deadlines are stretching, we currently remain on track to meet the required timelines for approval to enable go-live in June 2018.

### 2.0 Recommendation:

- 2.1 That Members note the progress to date and the proposed timeline for FCA regulatory approvals submission.
- 2.2 That Members approve the submission to the FCA of the application with a draft regulatory business plan as detailed.

### 3.0 Background:

- 3.1 The regulatory compliance and operating structure for BCPP Ltd was outlined in the BCPP Proposal to DCLG in July 2016. This was then agreed by all the partner Funds in their approvals procedure through their respective Authorities throughout the first quarter of 2017.
- 3.2 Work has been on going since this date with our appointed advisors to define the detailed target operating model and asset offering and, therefore, the exact permissions to operate as required to meet the needs of our partner Funds / clients. Members have been kept apprised through regular updates on the design and development of the target operating model and initial asset template offering with quarterly updates to the Member Steering Group and then the Joint Committee.
- 3.3 This paper seeks to consolidate that work into the specifics of the FCA approvals process, the permissions being sought from the FCA, and the timeline for submissions and approvals.
- 3.4 The FCA will, throughout the approval process, be seeking to gain assurance that the resources, policies, operational controls, systems and business plans are sufficient to meet the scale of operation being proposed. This ranges from assurance that the controlled function holders are sufficiently experienced and knowledgeable to the systems being complete and robust for the level of operation being proposed.
- 3.5 Although BCPP Ltd is large in scale the target operating model has been built on the principles of simplicity and systems standardisation. From initial conversations with the FCA they support this approach especially due to the fact that we are a start up business at large scale with a challenging timetable in which we intend to transition assets.
- 3.6 The full project plan for the FCA submission and permissions that have been identified as being required are shown at appendix 1 with the proposed submission timetable shown at appendix 2.
- 3.7 The main risk to the current timeline are:-
  - 3.6.1 Further delays to the recruitment of the controlled function post holders. The FCA will need assurance that if the individuals cannot be named on the submission then a clear recruitment process is underway with role profiles etc. agreed. Individuals will need to be identified before final approval can be granted.
  - 3.6.2 No delays in the on going procurement process to appoint a depository/third party administrator (TPA); ICT investment platform

and Corporate ICT platform provider. Additionally the appointed depository will need to agree to be identified and support the FCA submission documentation prior to finalisation of contract negotiations.

3.6.3 That the provisional budget as submitted to the FCA is agreed in substance by the shareholders.

3.8 The mitigations to the above risks:-

3.7.1 Recruitment – the revised recruitment process for the appointment of the remaining controlled function post holders should facilitate meeting the required timeline.

3.7.2 Procurement of Core Systems – all processes are progressing to a robust procurement timetable and no potential delays have as yet been identified.

3.7.3 The initial plan was to bring the draft budget to this meeting for progression to the shareholders for approval prior to submission to the FCA but it has not been possible to meet this timetable. It has therefore been provisionally agreed with the statutory officers that an alternative process be followed that will enable the FCA application to proceed with a draft regulatory business plan / budget that is then reviewed and approved and if the changes are sufficient to warrant it, submit an amended plan to the FCA.

3.7.4 The reasons for reaching the decision to delay presentation of the regulatory business plan and budget to today's meeting are as follows:-

- At the time of writing this paper the three largest expenditure items (excluding pay) e.g. TPA and the two ICT platforms we are not sufficiently progressed in the tender process and, therefore, we only have estimated figures based on our advisors experience of the market. Even a small variation in the TPA contract price will have a large impact on the overall budget. This will be available for a November submission to the FCA.
- S151's, along with their Fund Officers, need to be given time to review the final proposed BCPP Ltd budgetary requirement and assess the implications on their individual Funds before they can recommend it to the Members / shareholders for approval.
- Provisional agreement is required to the outline staffing structure before costs such as regulatory training requirements, ICT etc. can be quantified. The draft structure is detailed elsewhere on today's agenda which if approved can be used to drive the quantification of these costs.

- The CEO needs to have ownership of the regulatory business plan and resultant cost base so that both the BCPP Ltd Board and the Funds as clients can hold her accountable for delivery. As she is not yet in post she has not had time to have effective input or become comfortable with the proposed regulatory business plan / operational model or its resultant cost base.

### 3.7.5 Risks with Mitigations proposed by this delay:-

- Risk Delays FCA application
- Mitigation FCA application requires a draft high level expenditure budget, cashflow and balance sheet. The FCA are seeking assurance that the resources and cash liquidity required to manage assets at the volume proposed is understood and available. It is proposed that we will have sufficient information by November to submit a draft budget but acknowledge that this will not have been approved by the shareholders. However, the FCA appreciate that budgets as submitted are based on estimation across a whole range of factors. As long as what is submitted is in line with the final budget / resources approved / assets / detailed transition plan it is understood that the FCA will be supportive of such an approach.
- Risk Delays recruitment of essential posts required to ensure implementation proceeds effectively
- Mitigation Budgetary resources have been identified in the agreed implementation budget to enable recruitment for the key personnel to proceed prior to June 2018.

### 3.7.6 Proposed Revised Timeline For Shareholder Budgetary Approval:-

20th Nov	Project team submit high level draft outline budget as part of FCA application pack.
27th Nov	Budget template with line item expenditure headings reviewed by OOG.
1st Dec	Revised final proposed budget is constructed by implementation team following close of major procurement processes.
11th Dec	Plan reviewed by BCPP Ltd CEO.
12th Dec	OOG meeting for review and to receive inputs and comment.
15th Dec	BCPP Ltd Internal Governance / Board review.
15th Dec	Distributed to S151 & Officers.
9th Jan	Joint Committee papers distributed.

16th Jan Joint Committee.

End Jan Take on board Joint Committee feedback and then distribute via written resolution to Shareholders for approval.

#### **4.0 Conclusion:**

- 4.1 The FCA application is progressing to plan other than for the presentation of the business plan and budget to this meeting.
- 4.2 The risks of both progressing or not with the current plan in light of this delay are highlighted in the paper and the recommendation is that we proceed as proposed in paragraph 3.7.6

#### **Report Author:**

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#### **Further Information and Background Documents:**

*Appendix 1: FCA Application Tracking Document*

*Appendix 2 FCA Project Work Submission Timetable.*





# FCA Application Tracking Document

## Border to Coast Pensions Partnership



October 2017

# Contents

1. Introduction .....	3
2. BCPP Ltd Services Provided .....	3
2.1 Questions Outstanding .....	3
3. BCPP Ltd Regulatory Permissions .....	3
4. Approach to Authorisation .....	4
4.1 (1) Design .....	4
4.2 (2) Iterations .....	4
4.3 (3) Submission.....	4
5. Timeline for FCA Application Activities .....	4
6. FCA Documents Required for Application .....	5
7. BCPP Documents Required to be Available.....	5
8. Appendices .....	5
8.1 BCPP Ltd Permissions Outline.....	5
8.2 BCPP Ltd Permissions Table .....	7

## 1. Introduction

The Border to Coast Pensions Partnership (BCPP) was set up to lead the pooling of investment assets across 12 Local Government Pension Schemes (the 'Clients') from the North to the South of England. This was in response to the Government's intention for pooling LGPS investments, announced in July 2015, to significantly reduce costs while maintaining overall investment performance.

The Border to Coast Pensions Partnership has created the entity which is seeking to become an FCA-authorized alternative investment fund manager (AIFM); BCPP Ltd (the 'Company'). BCPP Ltd will operate a series of risk and return focused investment funds/sub-funds covering a comprehensive list of asset classes for the underlying LGPS pension schemes to invest into based on their own allocation strategy. There will be three groups of these investment funds/sub-funds:

1. 14 internally managed sub-funds held under an Authorised Contractual Scheme (ACS)
2. 15 externally managed sub-funds also held under the Authorised Contractual Scheme (ACS)
3. 7 internally managed Alternative Investment Funds (AIFs) not authorised by the FCA and held separate from the ACS

The legal structures and types of the funds that BCPP Ltd will offer are outlined in the table below:

Asset Class	Legal Structure	Fund Type	Management
Equities	ACS	QIS	Internal
Equities	ACS	QIS	External
Fixed Income	ACS	QIS	Internal
Fixed Income	ACS	QIS	External
Fixed Income	AIF	LP/UUT	Internal
Alternatives	AIF	UUT	Internal
Alternatives	AIF	LP	Internal
Alternatives	ACS	QIS	Internal
Alternatives	ACS	QIS	External

This document outlines the regulated services BCPP Ltd will be providing to its Clients and the resulting permissions required from the FCA to do so.

## 2. BCPP Ltd Services Provided

In order to deliver the objectives of the LGPS pooling initiative, the services that BCPP Ltd will provide its Clients are;

1. Managing UK Authorised Investment Funds (the ACS) that do not qualify as UCITS,
2. Managing UK Unauthorised Investment Funds, and
3. Activities permitted by article 6(4) of AIFMD (further details are provided in Appendix 8.1)

### 2.1 Questions Outstanding

There are still outstanding items to be resolved which are:

1. Confirming there are no activities or services being proposed by BCPP outside of AIFMD that fall under MiFID and/or an additional capital requirements regime (e.g. requiring an ICAAP)
2. The number and types of share classes for each fund, and
3. The treatment of uninvested cash held in funds

## 3. BCPP Ltd Regulatory Permissions

To be allowed to operate and deliver the services outlined above, BCPP Ltd will need the following regulatory permissions from the FCA. These permissions will determine the detail of the application forms submitted to the FCA and the regulatory capital regime that BCPP will fall under:

- a. Full scope AIFM (BCPP is above the threshold for small AIFM threshold)
- b. FUND 1.4.7 AIFM investment management functions
- c. FUND 1.4.7 other functions that an AIFM may additionally perform (listed in 7.2)

- d. FUND 1.4.3R (3) management of portfolios in accordance with mandates given by investors
- e. FUND 1.4.3R (4) investment advice
- f. FUND 1.4.3R (5) safe-keeping and administration (arranging)
- g. FUND 1.4.3R (6) reception and transmission of orders in relation to financial instruments
- h. Article 51ZE establishing, operating and winding up a collective investment scheme

Further detail is included in the Appendix 8.2 below.

## 4. Approach to Authorisation

The approach to completing and submitting the required FCA application has 3 phases:

### 4.1 (1) Design

The operating model design decisions from the previous stages of the project will determine the complexity of the application and the permissions required from the FCA.

During the Design phase key aspects of the operating and business model will be confirmed, including; types of services to be offered, capital regime, governance and organisation structure, and ownership and key relationships.

### 4.2 (2) Iterations

The key activities during the Iterations phase are documenting the details deriving from the outcome of the Design. Stakeholders will be consulted to sign-off the key decisions from the iterative sub-phases:

1. The Regulatory Business Plan
2. Key compliance arrangements including the final governance structure and individuals performing controlled functions
3. Compliance procedures and documented Compliance Monitoring Programme
4. Confirmation of the applicable FCA fee block based on the proposed authorised business
5. Obtaining/producing the necessary financial statements and forecasts

### 4.3 (3) Submission

This phase will ensure that the application is complete and ready to be submitted to the FCA. This will include signed-off documents, FCA forms and the supporting/supplementary information (required to be ready but not submitted at the time of application).

## 5. Timeline for FCA Application Activities

Phase	Activity	Dates	Status
Design	Agree services provided by BCPP	02/10 – 03/10	In Progress
	Define regulatory permissions and applicable capital regime	04/10 – 05/10	In Progress
	Gather FCA application documents required	05/10 – 06/10	Completed*
Iterations	Complete application documentation	09/10 – 08/11	In Progress
	Complete actions subject to attestation		
	Complete additional documents that can be requested		
Submission	Document Review and Submission	08/11 – 17/11	Not Started

\*The document pack is based on current permissions which are still to be formally signed off but are not expected to change.

## 6. FCA Documents Required for Application

Document	Description	Owner
Core Details Form	This form is required by the FCA so that they can contact BCPP appropriately during the application and thereafter, as well as ensuring that BCPP meet the threshold conditions (COND 2.2).	BCPP
Supplement for Investment Managers	This form is required to inform the FCA of the nature of the business BCPP intends to carry out so that BCPP is authorised for the correct regulated activities, investment and client types as well as ensuring the adequacy of BCPP's resources.	Alpha
Detailed IT Controls Form	This form is required by the FCA to demonstrate that BCPP's IT systems and controls meet the standards and requirements set out in SYSC (particularly SYSC 1) of the FCA handbook.	BCPP
Variation of Permissions (VoP)	This form is required by the FCA to outline the permissions being sought by BCPP and the controls, resources and personnel in place to manage the business. There is significant overlap with the Supplement above, but VoP takes precedent.	Alpha
Schedule of AIFs	This form is required to give details of the funds being created and offered by BCPP, including legal wrappers and asset class mix.	BCPP
FUND 3.2.2R Disclosure Checklist	A checklist to ensure BCPP have the required information available to provide to investors, for each AIF managed. This refers to the other documents and should be completed after the rest of the application.	Alpha
Checklist & Declaration	This form is required by the FCA as an attestation by BCPP that all required documents are included in their application and that all information provided is correct. This form outlines the FCA fees applicable to BCPP.	BCPP

## 7. BCPP Documents Required to be Available

Document	Owner	Status
Compliance Monitoring Programme	Alpha	Not Started
Compliance Manual	Alpha	In Progress
Policies & Procedures	Alpha	In Progress

## 8. Appendices

### 8.1 BCPP Ltd Permissions Outline

Taken from the Permissions Discussion Paper (July 2017):

Topic	Answer
Firm authorisation	BCPP is a full scope AIFM of UK AIFs.
Firm authorisation rationale	<p>BCPP will be managing UK Authorised Investment Funds (e.g. the ACS) that do not qualify as UCITS, as well as UK Unauthorised Investment Funds.</p> <p>These collectively are classified as Alternative Investment Funds (AIF). The current assumption is that the ACS funds will be structured as QIS. Further consideration is required to understand whether it is advisable to obtain FCA permissions for authorised and unauthorised investment funds in tandem. Given the differences in the operational model and fund structure it may be more feasible to first obtain the authorised investment funds permission and further down the line request a variation for unauthorised funds</p>
Provision of services beyond AIFM management functions	<p>BCPP will be providing services and activities other than AIFM management functions (FUND 1.4.7). These activities are limited to the activities permitted by article 6(4) of AIFMD. See permissions table 1 below for further info.</p> <p>As such the BCPP will be subject to additional requirements for those</p>

	services, but will remain in scope of AIFMD.
Small AIFM exemption	BCPP does not qualify for the small AIFM exemption given the size of the AuM being polled. To qualify, the AuM would have to be less than £100M (or less than £300M if internally AIFM)
Internally or externally managed AIFM	BCPP AIFs are not internally managed as none have their own governing body and, in any event, BCCP is an AIFM which is separate from, and hence external to, each of them.
Client money	The current working assumption is the clients will sign a waiver surrendering BCPP from its client money regulation requirements.
Fund types under management	See fund analysis breakdown for further detail on in scope funds Authorisation status of funds in scope include: <ul style="list-style-type: none"> <li>- ACS (regulatory status not UCITS)</li> <li>- Unauthorised AIF</li> </ul>
4a permissions	BCPP will be seeking 4a permissions: <ul style="list-style-type: none"> <li>- AIFM management function: 'Managing an authorised AIF' and 'Managing an unauthorised AIF' (equivalent to Fund 1.4.7)</li> <li>- Other 4a permissions, outside the scope of AIFM management function, permitted by article 6(4) of AIFMD. See below table for further detail</li> </ul>
Transition period	BCPP will not be seeking additional permissions to cover the transition period
MiFID II application	As an AIFM of AIFs with a Part 4A permission to manage investments including MiFID financial instruments pursuant to article 6.4 of AIFMD, certain MiFID provisions apply to BCPP when you provide investment services to third parties (see article 6.6 of AIFMD).  As such BCPP is classified as Collective Portfolio Management Investment firm (CPMI), providing MiFID services.  The impacts of this are mainly around the gold-plated requirements: best execution, inducements and research and tapping
Capital Requirements	As a Collective Management Portfolio Investment ("CPMI") firm, BCCP will be subject to (a) the AIFMD with respect to its management of the AIF's. It will require an initial capital of at least € 125,000. Thereafter, it will have to hold "own funds" in an amount which is the highest of: <ol style="list-style-type: none"> <li>1. the funds under management amount, i.e. € 125,000 + 0.02% of the amount by which the AuM exceeds € 250 million up to a maximum of € 10 million; or</li> <li>2. the amount representing the fixed overheads requirement based on one quarter of annual expenditure on all the overheads, i.e. with respect to all management activities;</li> </ol> In addition to the highest of 1 or 2, and to address its professional liability, BCCP will also have to hold capital in an amount of 0.01% of AuM or take out professional indemnity insurance to cover this amount.  The FCA rules implementing the AIFMD, will require BCCP to invest the "own funds" in liquid assets or assets readily convertible to cash in the short term.

## 8.2 BCPP Ltd Permissions Table

Taken from the Permissions Discussion Paper (July 2017):

AIFMD Activity	Part II RAO Activities	Permission Required
FUND 1.4.7 the <i>AIFM investment management functions</i> of: (a) portfolio management; and (b) risk management.	n/a	Yes
Other functions that an AIFM may additionally perform in the course of the collective management of an AIF: (a) administration: (i) legal and fund management accounting services; (ii) customer enquiries; (iii) valuation and pricing (including tax returns); (iv) regulatory compliance monitoring; (v) maintenance of unit/share holder register; (vi) distribution of income; (vii) unit issues and redemptions; (viii) contract settlements (including certificate dispatch); and (ix) record keeping; (b) marketing; and (c) activities related to the assets of AIFs, namely: (i) services necessary to meet the fiduciary duties of the AIFM; (ii) facilities management; (iii) real estate administration activities; (iv) advice to undertakings on capital structure, industrial strategy and related matters; (v) advice and services relating to mergers and the purchase of undertakings; and (vi) other services connected to the management of the AIF and the companies and other assets in which it has invested.	n/a	Yes
FUND 1.4.3R (3): The management of portfolios of investments in accordance with mandates given by investors on a discretionary client-by-client basis, including the management of portfolios of investments for pension funds and institutions for occupation retirement provisions in accordance with article 19(1) of Directive 2003/41/EC.	Managing investments (Article 37)	Yes
	Dealing in investments as principal (Article 14)	Yes
	Dealing in investments as agent (Article 21)	Yes
	Arranging (bringing about) deals in investments (Article 25(1))	Yes
	Making arrangements with a view to transactions in investments (Article 25(2))	Yes
FUND 1.4.3R (4): Investment advice	Advising on investments (except pension transfers & opt-outs) (Article 53)	Yes
FUND 1.4.3R (5): Safe-keeping and administration in relation to shares or units of collective investment undertakings.	Safeguarding and administration of assets (without arranging) (Article 40)	No
	Arranging safeguarding and administration of assets (Article 40)	Yes
	Sending dematerialised instructions (Article 45)	No
	Causing dematerialised instructions to be sent (Article 45)	No
FUND 1.4.3R (6): Reception and transmission of orders in relation to financial instruments.	Arranging deals in investments (Article 25)	Yes
	Bidding in emissions auctions (Article 24A)	No
Other	Establishing, operating	Yes

	and winding up a collective investment scheme (article 51ZE)	
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# FCA Application Timeline

# Appendix 2

			##	01-10	02-10	03-10	04-10	05-10	06-10	07-10	08-10	09-10	10-10	11-10	12-10	13-10	14-10	15-10	16-10	17-10	18-10	19-10	20-10	21-10	22-10	23-10	24-10	25-10	26-10	27-10	28-10	29-10	30-10	31-10	01-11	02-11	03-11	04-11	05-11	06-11	07-11	08-11	09-11	10-11	11-11	12-11	13-11	14-11	15-11	16-11	17-11	18-11	19-11	17/05/2018					
FCA Application	Activity	Cumulative Days																																																									
Agree BCPP Services Provided	2	2																																																									
Define FCA Permissions Required	2	4																																																									
Gather Documents Required	2	6																																																									
Complete FCA Application Documentation	23	29																																																									
Complete Actions subject to Attestation	13	42																																																									
Complete Additional Documents that can be requested	13	55																																																									
Document Review & Submission	8	63																																																									
Engage with FCA on proposals as Submitted																																																											

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## BCPP Joint Committee

**Date of Meeting:** 20<sup>th</sup> October 2017

**Report Title:** Update on Project Delivery and Implementation Budget

**Report Sponsor:** Programme Implementation Lead – Fiona Miller

### 1.0 Executive Summary:

- 1.1 This report updates Members on the high level activities undertaken since the last meeting towards the delivery of phase three of the BCPP implementation plan, i.e. to establish a fully regulated asset management company that is ready to accept the transition of assets by June 2018.
- 1.2 The paper outlines the high level activity across the three key work streams, i.e. the three Member sub-groups. A more detailed analysis of activity is provided where appropriate through the individual work-stream update reports elsewhere on today's agenda.
- 1.3 The current project implementation focus is on key deliverables over the next 12 weeks through to January 2018, including the procurement of the Third Party Administrator, ICT Investment Platform and Corporate ICT. Other core activities within the period include the FCA submission, completion of executive recruitment, property selection and lease negotiation, and further planning and scoping around HR and recruitment processes to support the BCPP structure.
- 1.4 In addition, the paper provides the Joint Committee with the current high level Risk Register, highlighting by exception any key areas for consideration by Members. The changes since the last report to Members being the HR resource requirements to allow the recruitment to the structure to commence within the next reporting period
- 1.5 There are only minimal changes to the projected implementation budgetary outturn as reported at the last meeting. As per the last meeting, currently the only area where it is anticipated there may be a budgetary overspend is for

the Executive / Non-Executive recruitment. Given the advanced stage we are now at with executive recruitment it is proposed that as the overspend is likely to minimal per fund that budgetary approval to meet this overspend is remitted to the next meeting when it can be fully quantified.

## 2.0 Recommendation:

2.1 That Members:-

2.1.1 Approve the attached high level BCPP Project Implementation Risk Register and mitigating actions proposed by the Project Team;

2.1.2 Note the projected implementation budgetary outturn and agree to seek required approval through their individual governance structures following the next Joint Committee meeting when this can be fully quantified;

2.1.3 Note the high level project activity during this period; and

2.1.4 Approve the proposed activities to be completed by the project team and sub-groups over the next period.

2.1.5 Approve the submission of the Autumn Update to DCLG as shown at appendix 3.

2.1.6 It is proposed that upon the CEO taking up post in December that responsibility for project delivery moves to her with the transfer of remaining budgetary provision.

## 3.0 Background:

### PROJECT PLAN – ACTIVITY DURING THE PERIOD (JULY TO SEPTEMBER 2017)

3.1 Significant progress has been made against the programme of work during the previous period including progressing the executive selection, TPA, ICT Investment Platform definition and procurements, and the property selection. The High Level Project Plan is shown in Appendix 2.

<b><i>Agreed Activity to be undertaken in the period to September 2017</i></b>	<b><i>Progress of Activity Against Project Plan</i></b>
Appointment of Third Party Administrator.	Detailed scoping and analysis of the high level TOM is complete and procurement process for the TPA is at the selection stage, supported by Alpha Financial Advisory Consultants.  Paper at item 9 on today's agenda provides the detail of the work

	progressed during the period in this area.
Set up of the BCPP Ltd company	<p>This work is now complete, as agreed at the last meeting four statutory officers have been appointed as interim directors to facilitate the company being incorporated, these are :-</p> <ul style="list-style-type: none"> <li>• Gary Fielding – North Yorkshire</li> <li>• Julie Crellin – Cumbria</li> <li>• Caroline Lacey – East Riding</li> <li>• Mike Harding – Tyne and Wear</li> </ul> <p>These positions will be transferred shortly as the appointed permanent Directors come into post.</p>
Premises Search	<p>Project Team Officers have been working with the property agent during the period to further refine the property requirements to secure the required premises for BCPP Ltd. operations.</p> <p>Multiple site visits have been undertaken by Officers, followed by Member and the Chair of BCPP Ltd visiting the shortlisted properties.</p> <p>A final shortlist of 2 properties in Leeds city centre which meets the operational specification is being progressed. The recommended property will be visited by the CEO during October while the lease financials are being negotiated with the landlord.</p>
Appointment of Investment Platform Supplier	<p>Detailed scoping of BCPP's requirements has been completed by Project Officers and AlphFMC.</p> <p>The ICT Investment Platform procurement commenced on the 26<sup>th</sup> September, and vendor selection is expected to be completed within the next reporting period.</p>
Member appointment of the senior company Executive and Non-Executive Director (Chairman and Chief Executive Officer).	<p>Executive recruitment has progressed significantly since the last meeting, with a number of posts successfully recruited and a schedule in place for the remaining posts:</p> <ul style="list-style-type: none"> <li>• Chair – In post as of June</li> <li>• CEO – Appointed with start date of 5<sup>th</sup> December.</li> <li>• COO – Offer of appointment made start date being negotiated.</li> <li>• CIO &amp; CRO – Interviews planned for November.</li> <li>• NEDs – 2 NED's appointed in October.</li> </ul> <p>Paper at item 4 on today's agenda gives greater detail on progress against this Workstream activity, including any remuneration and contract details agreed during the period.</p>
Corporate ICT Procurement	<p>Detailed scoping and analysis of BCPP requirements have been undertaken within the period to ensure any future solution supports both modern and flexible ways of working, and provides seamless integration to key investment infrastructure as detailed earlier in this section.</p>

	Tender due to be published November 2017, with consideration made to the ICT Investment Platform requirements to ensure compatibility between both systems.
Back Office Procurement	<p>A number of key procurement activities have been completed within the last period to ensure key corporate infrastructure components required to run BCPP operations are in place:</p> <ul style="list-style-type: none"> <li>• Payroll Services Provider: Contract awarded in September</li> <li>• Company Bank Account: Contract awarded in August</li> <li>• Insurance Broker Contract Award August</li> </ul>

### **RESPONSE TO THE SPRING UPDATE SUBMITTED TO DCLG**

- 3.2 The joint departmental response received by all the pools to their spring updates was circulated by email to Members in August.
- 3.3 Clarification has since been received from Officers at DCLG that references to Pools not pressing on as expected was actually only relevant to three Funds, none of which are in BCPP.
- 3.4 The Autumn update is due for submission on the 20th October and the proposed BCPP update submission is attached at appendix 3. There are no material changes to that submitted in the spring other than to update DCLG on the appointment of key posts.

### **KEY PROJECT IMPLEMENTATION ACTIVITIES UPDATE**

- 3.5 The table below shows the key activities being progressed and the updated high level timeline for the project implementation identifying any time critical dates / key milestones.

Outcome	Current Status	Risks / mitigations to project implementation	Revised Timeline (March 2017)
Overall Project Delivery "Go Live"	<p>MSG agreed go-live revised date of June 2018.</p> <p>All project plans re-profiled to new date.</p> <p>DCLG advised in Spring Update</p>	<p>All project time contingency removed.</p> <p>Budgetary increase being sought per above to meet requirements of executive recruitment Workstream.</p> <p>Indication from primary advisors that further implementation delays post June may incur resource and or budgetary issues.</p>	June 2018
Establish Joint Committee (JC)	<p>First JC 6<sup>th</sup> June 2017.</p> <p>Chair / Vice Chair selected.</p> <p>Meeting dates for next 12 months proposed.</p>	JC now in operation risk closed	
Design TOM and Appoint Asset Servicing Provider	On-going full update at item 9 on today's agenda.	<p>This is the core project requirement to establish BCPP Ltd as a functioning FCA asset manager – as such any slippage will have implications to overall go-live date.</p> <p>Successful appointment and implementation of the asset servicing provider will be the core driver of future operating cost base for</p>	Outline

		<p>the business and as such all decisions are being taken with full support of the appointed advisors.</p> <p>Mitigation – tight project management with extensive external professional support to ensure BCPP can position itself as an educated client in procurement and implementation activities.</p>	
FCA regulatory approval process.	<p>Work commenced in April following the appointment of Alpha.</p> <p>Initial contact with FCA undertaken by Alpha on our behalf.</p> <p>Submission pack to FCA in initial stages of being populated.</p>	<p>Resourcing issues at FCA due to MiFID II opt up processes hamper FCA approval processes.</p> <p>Mitigation early engagement with FCA to ensure they understand BCPP operating model and proposed resource commitment.</p> <p>Delays to executive start dates have pushed back submission to November. Paper 7 outlines further detail</p>	<p>Agreement by JC of FCA submission pack October 2017.</p> <p>Submission of proposals to FCA November 2017.</p> <p>Receipt of FCA Approval by May 2018</p>
Remuneration and recruitment process for Exec. and Non-Exec.'s	<p>First appointments made, remaining posts scheduled</p> <p>Full schedule shown in paper 4</p>	<p>In the absence of key executives, decisions need to be made by the project team that will be prohibitively expensive to revise at a later date should the execs wish to do so.</p> <p>Mitigation – decisions taken are on receipt of advice from advisors and confirmed by input from sub-groups and OOG.</p> <p>Now some key appointments have been made major decisions being reviewed.</p>	<p>Chair in post July 2017</p> <p>CEO appointed – start date Dec 17</p> <p>COO appointed start date being negotiated with current employer</p> <p>NEDS (2) appointed start date October</p> <p>CIO/CRO interviews Nov 17</p>



<p>Agree Asset Template Offering</p>	<p>Proceeding per plan. Outline template in paper 9 on today's agenda.</p>	<p>Initial template offering required to inform asset servicing procurement – delays will prevent FCA application. Mitigation – involvement by OOG and Fund Advisors to ensure initial offering meets Fund's needs. First asset template offering for BCPP on today's agenda for approval at item 9</p>	<p>Outline template agreed by JC. June 2017. Draft detailed template required September 2017 to inform asset servicing tender. Initial BCPP asset template agreed October 2017 to support FCA proposal submission in November 2017.</p>
<p>Acquire BCPP Premises</p>	<p>BCPP Project Leads along with Members and Chair of BCPP Ltd have reviewed shortlisted properties.</p>	<p>Delay to chosen property availability due to property refit by landlord. Mitigation: BCCP considering building refit schedule option to incorporate ICT infrastructure requirements within the building refit.</p>	<p>JC endorse Premises recommendation October 17. Contract negotiations, leading to signing of lease agreement Nov 2017. Premises available for fit out Dec 2017 Occupation for testing and team integration from April 2018.</p>
<p>Establish Corporate Services Functions</p>	<p>Ongoing Procurement Exercises in this period :-  <ul style="list-style-type: none"> <li>• Banking Services</li> <li>• External Auditors</li> <li>• Payroll / HR</li> <li>• Web provider</li> <li>• Interim Corporate ICT</li> </ul> </p>	<p>All these are corporate enabling services and delays will inhibit core interdependencies elsewhere in the project delivery. Mitigation – detailed project planning to ensure all independencies are tracked and realigned as required.</p>	<p>April 2018</p>

	<p>Future Periods:-</p> <ul style="list-style-type: none"> <li>• Operational ICT</li> <li>• premises servicing (utilities; cleaning; catering; confidential waste;</li> <li>• Office supplies,</li> <li>• Photocopiers/M FD,</li> <li>• Investment research</li> <li>• Brokers</li> <li>• Office furniture / fit out</li> <li>• Recruitment Services</li> </ul>		
Acquire Corporate ICT	<p>Scoping and specification for interim executive requirements complete.</p> <p>Specification for permanent solution complete Oct 2017.</p>	<p>Company cannot go-live without full corporate ICT.</p> <p>Mitigation – Detailed specification being produced, soft market testing completed with potential vendors to validate operational modelling.</p>	<p>Interim solution for Execs November 2017.</p> <p>Full solution March 2018</p>
Complete Asset Transition	<p>Work currently progressing ahead of schedule.</p> <p>OOG October &amp;</p>	<p>Transition plan not aggressive enough to generate savings in a timely manner or too aggressive and not deliverable or supported by FCA.</p>	<p>Draft agreed October 2017</p> <p>Used to inform FCA application November</p>

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Planning	S151 reviewed proposed transition schedule.	OOG October & S151 reviewed proposed transition schedule.  Brief sensibility check by BCPP Ltd Chair & CEO (in waiting).  Material levels of advice and support from key advisors.	2017.
Start TUPE transfer of staff from existing Funds	Initial information and legal advice received.  Work undertaken to collate all T&C's from each Fund.  Project Team reviewing HR capacity required to support the TUPE/HR transition and production of key policies and procedures	Project Team do not have capacity within existing resource to undertake the detailed work required to deliver the HR requirements.  Mitigation: Project Leads along with CEO (in waiting) are reviewing options to recruit HR resource with immediate effect to build capacity in the team.	June 2018
Recruit additional investment and operational staff	Discussions on going regarding terms and conditions prior to initiating recruitment processes.  Paper 5 on today's agenda	Delays to recruitment of personnel will cause potential delays and or increased risks to operational go live or future transition / deliver of savings.  Proceeding per revised plan	Start additional recruitment from Nov/Dec 2017

## **PROJECT IMPLEMENTATION – ACTIVITY IN THE NEXT PERIOD**

3.6 There are a number of key activities during the next period, with the main focus being on 3 key areas; the award of key contracts (Third Party Administrator, Investment Platform and Corporate ICT), securing premises and recruitment (Executive and Operational staff). Key work stream activity planned in the next period:

- Completion of the BCPP Executive appointments processes and remuneration as per revised project plan.
- Working with Operator Advisers to award the Third Party Administrator contract in line with the Asset Servicer and Depository specification.
- Working with Operator Advisors to award contract for the ICT Investment Platform provider.
- Working with the Premises Advisers to negotiate the lease on the agreed property in Leeds in readiness for the fit out in QTR 1 of 2018.
- Interim ICT solution in place to all BCPP executives to function once appointed prior to the occupation of the premises in Leeds.
- Finalise Corporate ICT specifications and proceed with agreed procurement process.
- Continue activity on general T's and C's for workforce, specifically decide on pensions offering for new staff, and develop key BCPP Policy and procedures to support operational readiness.
- Continue to engage with transferring staff as the project continues.

## **HIGH-LEVEL PROJECT IMPLEMENTATION TIMETABLE**

3.7 As agreed at the previous Joint Committee and Statutory Officer Group calls, the project implementation target “go-live” date has been delayed to June 2018. This was reported to DCLG on the spring update in May and no adverse feedback was received in their generic response sent to all Funds in August.

3.8 All project implementation activities and inter-dependencies have now been realigned to this date and the revised high level project plan is attached at Appendix 1.

## **PROJECT RISKS**

3.9 Appendix 2 provides the high level project Risk Register for BCPP. Member input is welcomed on items they would like added or expanded on. Key risks surrounding current milestones are:

- Impact on key deliverables if remaining executive recruitment process encounters delays.
- Impact of revised operational live date of June 2018.
- Impact of Project HR resource availability to allow key activities in both recruitment and selection, and policy and procedures.

Mitigating controls in place by Officers are detailed in Appendix 2.

## PROJECT EXPENDITURE

1.6 The project budget including any predicted overspends is shown below. As reported to the last meeting, current planning expectations to deliver the project up to the proposed go-live date of June 2018 are showing a predicted overspend of £0.175m on the total agreed implementation budget of £4.2m (£0.350m per Partner Fund). As per the last meeting, currently the only area where it is anticipated there may be a budgetary overspend is for the Executive / Non-Executive recruitment. Given the advanced stage we are now at with executive recruitment it is proposed that as the overspend is likely to be minimal per fund that budgetary approval to meet this overspend is remitted to the next meeting when it can be fully quantified.

	Working Budget (£'000)	Predicted Outturn (£'000)	Variance to Budget (£'000)
<b>People</b>			
Salaries - Executives (including Compliance Officer)	675	675	-
Non-executives	-	95	95
Project management costs (inc. officer secondments)	500	500	-
Recruitment of executives and non-executives	150	230	80
Recruitment of other staff	150	150	-
<b>Governance</b>			
Legal advisers	350	350	-
Procurement support	30	30	-
<b>Operating Model</b>			
Tax and Operating Model advisers	850	850	-
Asset Servicer appointment	150	150	-
External rather than internal Project Support	325	325	-
Legal costs for regulation and fund documents - ACS	100	100	-
Other legal agreements - ACS	200	200	-
Tax and operational advice - ACS	80	80	-
Procurement support	70	70	-
ICT and Infrastructure	500	500	-
FCA fees	25	25	-
<b>Other costs</b>	45	45	
<b>TOTAL SPEND</b>	<b>4,200</b>	<b>4,375</b>	<b>175</b>
Total Implementation Budget £350k per Partner Fund			
Potential additional for charge per Fund £14.5k			

## 4.0 Conclusion:

- 4.1 The Partner Funds of BCPP gave their support to the project approach and approved the detailed project plan at their meeting on 18<sup>th</sup> November 2016, which is supported by dedicated internal funded project co-ordination resource supported by key advisory support.
- 4.2 The project team continues to be heavily supported by industry experts from three disciplines Legal (Eversheds Sutherland), Tax and Financial Planning (Deloitte) and TOM, asset servicing and investment ICT procurement and FCA registration (AlphaFMC).
- 4.3 Key activities, milestone timescales, and risks are now being delivered operationally by the three Sub-Groups within the project methodology to the revised project “go-live” date of June 2018.
- 4.4 It is proposed that upon the CEO taking up post in December that responsibility for project delivery moves to her with the transfer of remaining budgetary provision.

## Report Author:

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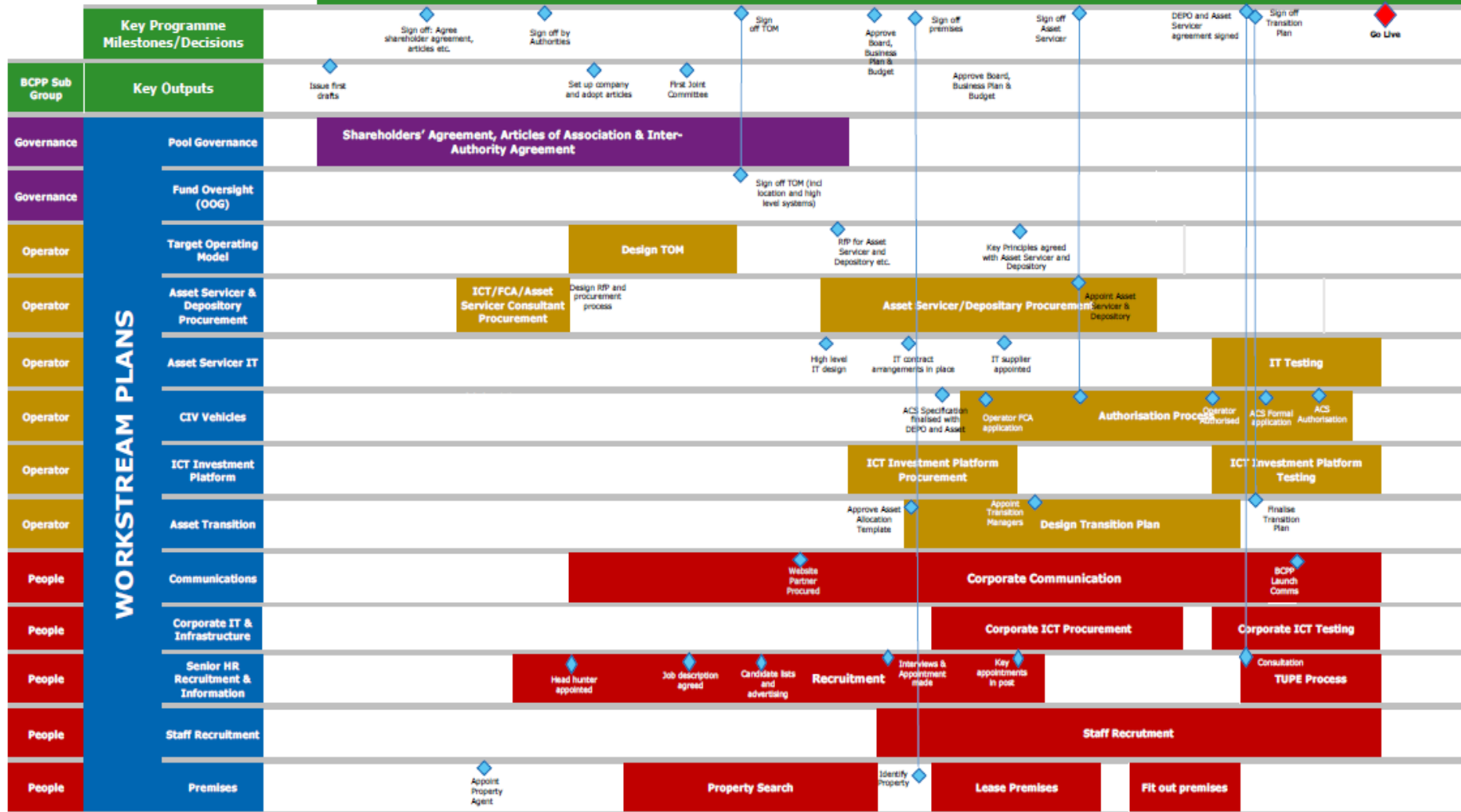
## Further Information and Background Documents:

*Appendix 1: BCPP Project Plan*

*Appendix 2: BCPP Risk Register*

*Appendix 3: DCLG Autumn Update*

Month ▶ Dec-16 Jan-17 Feb-17 Mar-17 Apr-17 May-17 Jun-17 Jul-17 Aug-17 Sep-17 Oct-17 Nov-17 Dec-17 Jan-18 Feb-18 Mar-18 Apr-18 May-18 Jun-18 Jul-18



## Appendix 2

BCPP Project Delivery Risk Register													
Responsibility		BCPP Officer Operations Group											
Date last reviewed		17th May 2017											
Reviewed by		Steve Halford - BCPP Programme Manager											
Version		Version 9											
No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
GM1	Govt Approval Not Received	External	Risk of BCPP proposal being rejected by government.	2	5	10	Outside BCPP's control	Fiona Miller & David Hayward	Governance & Monitoring	2	5	10	12/12/2016
GM2	Funds choose to withdraw from BCPP Project	Internal	Risk of a Fund(s) withdrawing from the BCPP	1	5	5	1. Clear governance within the Member OSG. 2. Commitment by funds to the BCPP. 3. Pool value estimated at £42bn, threshold £25bn so formation of pool not dependent on any fund. 4. Secure contribution agreements for all costs.	Fiona Miller & David Hayward	Governance & Monitoring	1	5	5	
GM3	Delays in decision by government on Pooling	External	Impact of delay in the formal approval by government to proceed on 1st April 2018 deliverable	4	5	20	1. Project Planning and procurement ongoing to mitigate the impact of delays on reviewing formal approval. 2. All funds schedule meetings to the end of March 17.	Fiona Miller & David Hayward	Governance & Monitoring	3	5	15	12/12/2016
GM4	Unexpected costs	Financial, Project & Deliverables	Risk that programme implementation costs will exceed budget due to unexpected costs.	4	4	16	1. Ensure VFM is gained from every 3 <sup>rd</sup> party contract. 2. Expenditure reported quarterly against initial estimated at Joint Committee.	Fiona Miller	Operating Model	3	4	12	
GM5	April 18 Government Deadline	External	Implications for late delay to recommended deadline.	4	5	20	1. Revised delivery date of June 18 approved by JC and DCLG Informed.	Fiona Miller & David Hayward	Governance & Monitoring	3	2	6	





## BCPP Project Delivery Risk Register

<b>Responsibility</b>	<b>BCPP Officer Operations Group</b>
<b>Date last reviewed</b>	<b>17th May 2017</b>
<b>Reviewed by</b>	<b>Steve Halford - BCPP Programme Manager</b>
<b>Version</b>	<b>Version 9</b>



No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
GM6	Political - May Elections	Internal	Changes to key committee members following the elections	4	3	12	1. Awareness by lead officers of current impact following elections	Fiona Miller & David Hayward	Governance & Monitoring	4	3	12	01/06/2017
GM7	Political - Executive recruitment	Internal	Running executive recruitment over election period	4	3	12	1. Use of members likely to in post pre and post election to ensure consistency and reduce impact of delays.	Ian Bianbridge	Governance & Monitoring	3	2	6	01/06/2017
OM1	Investment Regs Not Laid	External	No formal mechanism to require Funds to pool resulting in delays to implementation	2	5	10	Outside BCPP's control	Mark Lyon	Operating Model	2	5	10	01/11/2016
OM2	Project Resource	Internal & Operational	1. Risk that project resource capacity will not be in place. 2. Resource expertise and capacity to undertake the staff recruitment, both internal TUPE transfer and external processes.	4	5	20	1. Internal project resource in place, initial consideration regarding alignment to work stream external resource undertaken. 2. Intelligent Client - the procurement of extended resource provision for key activities. 3. Executive recruitment ongoing to current timescales. 4. Project Team considering resource requirements to support HR recruitment process.	Fiona Miller	Operating Model	3	5	15	
OM3	Delays to Admin Auth Approvals	Internal	Key date of March 2017 for formation of Joint Committee missed resulting in a minimum 6 month delay to implementation due to local elections at some authorities	2	5	10	1. Within BCPP's control but dependent on Partner Funds meeting the required timetable. 2. Regular updates at OOG and MSG meetings to ensure BCPP are aware of potential delays in Funds' governance processes. 3. Ultimate sanction of BCPP continuing with the implementation phase but without those Partner Funds that cannot meet the timetable.	Mark Lyon	Operating Model	2	5	10	24/03/2017

## BCPP Project Delivery Risk Register

<b>Responsibility</b>	BCPP Officer Operations Group
<b>Date last reviewed</b>	17th May 2017
<b>Reviewed by</b>	Steve Halford - BCPP Programme Manager
<b>Version</b>	Version 9



No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
OM4	Procurement Delays and Market Capacity	Operational	Risk of delays due to government decision to proceed with pooling agenda.	4	4	16	1. Early activity to procure Legal Advisory, Tax & Accountancy Advisory, Executive Recruitment, and Operator Advisory services have been undertaken and contracts awarded. 2. Specifications for Asset Servicer Advisory tender written, NEPRO approach agreed by Officer Group and will proceed w/c 13th February. 3. Premises Advisory Services appointed and property search underway.	David Hayward	Operating Model	1	4	4	01/05/2017
OM5	FCA Authorisation	External & Reputational	1a) Risk that FCA will delay the CIV application 1b) Risk that FCA will reject the CIV application	3	5	15	1..BCPP using specialist advisors to advise on FCA application process, this work is underway. 2. Senior Executives will provide capacity in this area.	Mark Lyon	Operating Model	1	5	4	
OM6	Not delivering savings	Financial, Reputational & Deliverables	Risk that BCPP will not deliver savings to the funds.	4	5	20	1. Ensure project has clear focus on delivering savings. 2. Effective Monitoring and performance measures to be developed. 3. Effective Delivery Team & Programme Management.	Fiona Miller & Mark Lyon	Operating Model	1	5	5	
OM7	MiFID	External	Impact of proposed changes to MiFID across both the Pool and Funds	4	5	20	1. BCPP responded to the consultation and dialogue with FCA and Government about impacts, and is awaiting a response in June/July 2017. 2. Supplemental legal advice may be required depending on outcome of consultation. 3. BCPP representation on cross pool MiFID group. 4. Industry approved opt-up template and associated documentation approved. 5. All BCPP funds currently completing necessary documentation.	Mark Lyon	Operating Model	2	3	6	
OM8	Incomplete Tax Documentation	Internal	Incomplete tax documentation resulting in leakage at pool level.	2	3	6	1. Pool will monitor tax documentation required for each sub fund. 2. Additional share class to avoid contamination of the funds.	Officer Group	Operating Model	2	3	6	

## BCPP Project Delivery Risk Register

<b>Responsibility</b>	BCPP Officer Operations Group
<b>Date last reviewed</b>	17th May 2017
<b>Reviewed by</b>	Steve Halford - BCPP Programme Manager
<b>Version</b>	Version 9



No	Risk	Risk Type	Risk description	Risk Rating without control			Controls in place	Responsible Officer	Work Stream	Risk rating with control			Risk Closed Date
				L	I	O				L	I	O	
P1	Executive Recruitment	Internal	Risk that key company positions will not be filled in line with FCA application authorisation timeline. Market Availability of key roles a key risk.	4	4	16	1. Chair, CEO, COO and NEDs appointed 2. CIO/CRO expected to be appointed in Q4 2017.	Ian Bainbridge	People	2	4	8	
P2	TUPE Resource	Internal	Failure to secure effective and sufficient transfer of in house staff to manage service at go live	2	3	6	1. Continued dialogue and communication with existing staff.	Nick Orton	People	2	3	6	
P3	Corporate Infrastructure - Premises	Operational	Risk that Premises are not established in time for both ICT testing, and launch timescale	4	5	20	1. Shortlist of 2 properties, a number of Members and Officers have viewed them, financials currently being negotiated. 2. Lease expected to be signed in Dec 2017, for out of premises and occupation from April 2018.	Nick Orton	People	2	4	8	
P4	Pensions Admissions Agreement	Internal & External	Failure to agree route to provide LGPS access to transferring staff, and agree suitable pensions solution for new recruits.	2	5	10	1. Legal, tax, financial, and HR advice being sought, discussion with DCLG/LGA, close engagement with Statutory Officer Group.	Nick Orton	People	1	5	5	
P5	General External Recruitment	Internal	Failure to recruit adequate staff to company.	3	4	12	1. Ensuring competitive terms and conditions. 2. Premises to be in vibrant financial services district.	Nick Orton	People	2	4	8	
P6	Corporate infrastructure - ICT	Operational	Risk that ICT infrastructure is not established within launch timeline.	4	5	20	1. Project plans in place to deliver corporate infrastructure within timeframe. 2. External advisors advising on interim corporate solution for executives. 3. Specification in draft, full procurement due to commence in November 18, award in Dec 17 - Jan 18.	Steve Halford	People	2	5	10	





### Local Government Pension Scheme pooling: autumn progress report

Please report against each of the areas outlined below as at 30 September 2017, highlighting significant changes to your final proposal submitted in July 2016, and/or since the last progress update report submitted in April 2017.

The deadline for submission is Friday 20 October 2017. We will follow up any questions or concerns with individual pools as necessary.

#### Pool: **Border to Coast Pensions Partnership**

**Date:** 20<sup>th</sup> October 2017

#### **Criterion A: Scale**

For pools in development:

- Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate.

*Estimated value at 30<sup>th</sup> June 2017 – c. £44.3bn.*

- Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds.

*Once transition is fully complete, the value of assets expected to remain outside of the pool<sup>1</sup> are:*

- *Cash – c. £0.5bn (held for transactional purposes).*
  - *Agriculture investments directly held by South Yorkshire Pensions Authority: c. £0.3bn.*
  - *Local investments held outside of BCPP by Teesside Pension Fund: c. £0.2bn.*
- Progress towards go live by April 2018.

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<sup>1</sup> As previously agreed this excludes passive mandates which are to be managed collectively.

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- please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorisation

*Project plan is attached as Appendix A.*

*As indicated in the “Spring 2017” update the expected “go live” date is June 2018 and while there have been some delays in the executive recruitment it is expected that these can be accommodated within the timeline. As such at this stage there are no material changes to the project plan delivery timeline anticipated from that submitted in the spring.*

- please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues.

### **Key Risks and Mitigations**

- *Risk – Failure to appoint suitable senior Executives and Non-Executives in a timely manner.*

*Mitigations:*

- *The Chair (Chris Hitchen) and the Chief Executive (Rachel Elwell) were appointed in August and September 2017 respectively.*
- *The Non-Executive Directors (Enid Rowlands and Tania Castell) and the Chief Operating Officer (Fiona Miller) were appointed in October 2017.*
- *The remaining senior management positions (Chief Investment Officer and Chief Risk Officer) are expected to be appointed by November 2017.*

- *Risk – Failure to appoint suitably qualified and experienced personnel in a timely manner (BCPP will be looking to appoint up to 50 staff across a wide variety of investment and operational roles in the first 6 months of operation).*

*Mitigations:*

- *BCPP will use external recruitment companies where considered appropriate.*
- *A number of investment staff will transfer from the internally managed funds.*

- *Risk – FCA authorisation process being more complicated and time consuming than expected.*

- *Mitigation – Advisors appointed to assist with process with the FCA application expected to be submitted in November 2017.*
- *Risk – Adverse regulatory changes having an impact on investment opportunities.*
  - *Mitigation – The changes to the MiFID II criteria for opting up to professional status makes the process less onerous.*
- *Risk – MiFID II requiring project staff to be re-diverted back into their Funds to deal with opt up processes.*
  - *Mitigation – A common opt-up template has been agreed between the LGPS, FCA, LGA, and Investment Association which will enable a smoother opt-up process.*
- *Risk – Timetable pressures resulting in sub-optimal structure being developed and therefore incurring additional costs at a later stage, or savings not being fully realised.*
  - *Mitigation – Appointing appropriate levels of external advice and under that advice adjusting the timetable as required.*
- *Risk – Pressures on the implementation budget resulting in the requirement to request additional funds from the shareholders.*
  - *Mitigation – The implementation budget is being closely monitored and potential budget overruns are being flagged at an early stage.*

For operational pools:

- Structure and scale – please state the total value of assets to be invested via the pool together with the value of assets to be invested outside of the pool by participating funds.
- Progress with transition - please state the value of assets within the pool, and provide an updated high level transition plan

### **Criterion B: Governance**

For pools in development:

- Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements

*Project plan is attached as Appendix 1.*

*As at 30<sup>th</sup> September 2017 all shareholder documentation has been completed, two Joint Committee meetings have been held in June and October 2017, and BCPP Limited has been incorporated as a limited company.*

For operational pools:

- Changes to governance since final proposal [and/or Spring 2017 progress report] – briefly describe any changes to the governance structure, in particular please set out your plans for ensuring the pool can effectively implement the asset allocation and responsible investment strategy of each fund.

### **Criterion C: Reduced costs and value for money**

For all pools:

- Update on costs estimates – please state current high level estimates for implementation costs to date, by go live and following go live.

*The implementation budget to the expected go live date is currently £4.2m, equating to £350,000 per fund, although this may increase due to the requirement to meet higher than anticipated senior management costs.*

*The ongoing operational budget is currently being drafted and a high level version of this budget will form part of the FCA application in November 2017.*

- Update on annual savings estimates, including reductions in fees/mandates

*Estimated savings remain as based on the assumptions set out in the July 2016 submission, and are considered to be achievable. However, due to the increase in asset values, total savings will be higher.*

*It is estimated that BCPP funds have generated annual cost savings of c. £4.5m since 31<sup>st</sup> March 2015.*

- Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above.

*As per the July 2016 submission.*

- Plans for reporting including on fees and net performance in each listed asset class against an index.

*As stated in the July 2016 submission, there will be full transparency in reporting gross and net performance and costs of each sub-fund in line with industry best practice. This will be available to all partner funds, irrespective of whether they have invested in that particular sub-fund, and will also be published on the BCPP website.*



*Detailed design and layout of reporting templates is currently being undertaken as part of the completion of the design and implementation of the detailed target operating model.*

- Plans for how the pool will report publicly on a fully transparent basis – please confirm that the pool will adopt the Scheme Advisory Board Code of Transparency for reporting to participating funds

*As stated above, there will be full transparency in reporting performance and costs at each sub-fund, in line with industry best practice.*

*BCPP is fully engaged with the joint working group on this to ensure not only pool but also individual Fund requirements can be met going forward (CIPFA; DCLG; HMT; Cabinet Office; GAD; LGA).*

*As such BCPP can confirm that as a minimum it will adopt the Scheme Advisory Board Code of Transparency.*

#### **Criterion D: Infrastructure**

For all pools:

- Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target.

*Long term target allocation and plans to achieve it are as per the July 2016 submission.*

*Current strategic allocations to Infrastructure as a separate asset class across the partner funds equate to c. 2.9% or c. £1.3bn (Spring 2017 update: c. 2.7% and c. £1.1bn) and committed funds total c. 2.2% or c. £1.0bn (Spring 2017 update: c. 2.3% and c. £0.9bn).*

*When the wider definition of Infrastructure, which was agreed for the July 2016 submission, is used the amount committed is c. 5.6% or c. £2.5bn (Spring 2017 update: c. 5.9% or c. £2.5bn) compared to 4.1% included in the July 2016 submission.*

*BCPP is an active member on the Infrastructure Cross Pool Sub-group which is exploring the opportunities for joint infrastructure investing. Discussions are continuing across the various pools as to the most appropriate structure to adopt.*

- Timetable to achieve stated ambition - please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above.

*The ambition of BCPP remains per the July 2016 submission on building the capability and capacity within BCPP Ltd to service an ambition of up to 10% of total Fund assets. The Partner Funds retain strategic asset allocation choice in regard to this and all other asset classes.*

*There will be a dedicated Infrastructure sub-fund available to partner funds once BCPP is fully operational. This will invest in a broad range of infrastructure investments with suitable sector and geographic diversification. The intention is that a part of this offering may be satisfied by the solution identified within the Infrastructure Cross Pool Sub-Group.*

*To ensure that BCPP is an active participant in any cross pool solution it chairs the Cross Pool Infrastructure sub-group and also has representation from senior investment professionals. The group continues to make steady progress towards the creation of an effective solution. The group continues to develop its thinking by learning from solutions currently being developed within the LGPS and through wider engagement with industry participants, to ensure that BCPP can access Infrastructure investments in the most effective manner. The intention remains for operational delivery of a solution in line with the go-live dates of the various pools.*



## BCPP Member Steering Group

**Date of Meeting:** 20<sup>th</sup> October 2017

**Report Title:** Update on development of Target Operating Model and transition plan

**Report Sponsor:** Operating Model Sub Group Lead – Mark Lyon

### **1.0 Executive Summary:**

- 1.1 This report provides an update on the work that has been undertaken within the Operating Model Workstream since the last meeting on 6<sup>th</sup> June 2017.
- 1.2 The design phase of the Target Operating Model has been completed and the tenders for the two main service providers have been issued with preferred suppliers expected to be identified by the end of 2017.
- 1.3 The FCA application pack is currently being prepared and is expected to be submitted in November 2017.
- 1.4 The asset allocation template has been finalised and is presented for approval by the Joint Committee.
- 1.5 The draft transition plan has been prepared and will be subject to further review during the transition process.
- 1.6 The process for Administration Authorities opting up from retail status to elective professional status under MiFID II has been simplified.

### **2.0 Recommendation:**

- 2.1 Members note progress to date and support the outlined plan to progress the work on the Operating Model Workstream including the implementation of the operating model and the procurement of suitable service providers for the next period.

2.2 Members approve the asset allocation template (**Appendix 1**).

2.3 Members note the progress on transition planning (**Appendix 2**) and support the continued development of the transition management arrangements.

### 3.0 Background:

3.1 The key areas of scope within this Workstream are summarised in the table below:

<b>Core Activity</b>	<b>Description</b>	<b>Status</b>	<b>Lead Officer</b>
Tax and Financial Services tender	Tender for external consultancy services covering the tax and financial considerations relating to the Operating Model and asset structuring	Completed	Mark Lyon
Operating and Regulatory Model tender	Tender for external consultancy services covering the selection of the depositary, FCA compliance, and ICT design and implementation	Completed	Mark Lyon
Operating Model	FCA approval process, selection of depositary and associated service providers, and design, testing and implementation of ICT (in conjunction with external adviser(s))	Ongoing to plan	Mark Lyon
Asset allocation template	Design of the asset allocation template detailing the sub-funds to be offered – to be approved by the Joint Committee	Ongoing to plan	Mark Lyon
Sub-fund prospectuses	Drafting of the prospectus for each sub-fund – to be approved by the Joint Committee with regulatory approval by the FCA prior to launch	Plan to commence next period	Mark Lyon
Transition planning	Timetable for transition of assets and selection of appropriate external transition managers	Ongoing to plan	Mark Lyon
Resource planning	Determining the appropriate level of resources to manage the proposed sub-funds – this will link into the People work stream	Ongoing to plan	Mark Lyon

## External advisors

3.2 The external advisors for the workstream are:

- Legal (Eversheds Sutherland);
- Tax and Financial Services (Deloitte); and
- Operating and Regulatory Model (AlphaFMC)

## Planning Phase

3.3 The design phase of the Target Operating Model was completed in July 2017. The operating model design determines the overall structure of the entity and how it will operate once established. This includes which activities are performed internally and which are performed through outsourced service providers, and the associated budget and resource implications.

3.4 The design of the operating model was split into six sections:

- **Business Strategy and Design Principles.** These are the overriding principles that will guide the design and implementation of the business model.
- **Business and Entity Model.** This includes the corporate entity, the level and type of interaction between the entity and the funds, the products and services that the business will provide e.g. types of investment, the legal structure of investments and how they will be recorded, and the regulatory requirements.
- **Governance and Organisation Model.** This defines the governance model and terms of reference of the key committees that will manage and control the business; defines the key functions, management and reporting lines for the business; defines the key roles and responsibilities in the senior management team; and outlines the policy documents that will be required e.g. regulatory policy requirements and risk framework.
- **Functional Model.** This defines the key roles and responsibilities of each function within the business model including internal and outsourced functions; the capabilities required to deliver the business model including personnel, process and procedures, technology, and controls and reporting; and the entity's approach to outsourcing.

- **Technology and Data Model.** This defines the key components of the technology and data requirements.
- **Infrastructure Model.** This includes technology hardware, office locations and physical resources required to support the business.

3.5 The core principle applied throughout the design phase was to adopt market-standard practices rather than build a bespoke operating model on the grounds of relative simplicity and cost.

### **Implementation Phase**

3.6 Following the completion of the design phase tenders have been issued for the following:

- Third Party Administrator (TPA) – this is responsible for a wide range of investment administration services including the safekeeping of assets, the processing of tax reclaims and corporate actions, the pricing of the investment sub-funds, and any dealing in the units of the sub-funds.

BCPP is not following a strict OJEU procurement process due to some of the inherent inflexibilities but it is following a Treaty of Rome compliant procurement process which follows the spirit of OJEU but which permits ongoing dialogue with providers throughout the process.

The timeline for the process is as follows:

- Tender documents were issued at the end of August.
- Pre-qualification assessment was completed by the Project Team at the end of September.
- Initial dialogue meetings between the Project Team and the six shortlisted providers were held in early October.
- Project Team will assess the outline solutions from these providers by the end of October.
- Further dialogue meetings will take place in early November.
- Final tenders are required to be submitted by mid-November.
- The Project Team will assess these final tenders and a preferred provider will be identified by the end of November.

- Following the standstill period, BCPP and the preferred supplier will negotiate and finalise contract documents from January 2018 with the process expected to take up to 3 months.
- Investment ICT platform – this will provide a wide range of investment services including data, analytics, portfolio management and dealing capabilities.

BCPP is following an open OJEU procurement process with the following timeline:

- Tender documents were issued at the end of September.
- Tenders are required to be submitted by the end of October.
- The Project Team will undertake a pre-qualification assessment and then evaluate the tenders of those providers that pass this assessment resulting in a preferred supplier by early November.
- Following the standstill period, BCPP and the preferred supplier will finalise the contract documents by the end of November.

3.7 The FCA authorisation pack is currently being prepared and is expected to be submitted in November. The details of this have been covered in Item 7.

#### **Asset Allocation template**

3.8 Following further discussions within the Officer Operations Group the asset allocation template (**Appendix 1**) has been finalised and is being presented to the Joint Committee for approval.

3.9 It is important to note that the figures in the template reflect the current asset allocation requirements of the pension funds and only serves as a guide to the potential scale of assets in each sub-fund in the future. As a result, some sub-funds may appear sub-scale at present but this does not reflect the potential for an increase in size as asset allocations change over time.

3.10 The changes to the template since the last meeting relate to the Multi-Asset Credit (MAC) sub-funds and are as follows:

- There were originally two Multi-Asset Credit sub-funds – an internally managed sub-fund (which would consist of a diversified range of credit investments in pooled investments, co-investments, and direct investments) and an externally managed sub-fund (which would consist of externally managed MAC funds).

- The externally managed sub-fund has been retained but the internally managed sub-fund has been split into the following:
  - Private Debt (low risk) – this would invest in private debt investments in the senior (lowest risk) part of the capital structure.
  - Private Debt (higher risk) – this would invest in private debt investments that would be subordinated to the senior debt in the capital structure (e.g. second lien, mezzanine etc.).
  - Multi-asset Credit (low risk) – this would invest in a wide range of private and public debt investments in the senior (lowest risk) part of the capital structure.
  - Multi-asset Credit (higher risk) – this would invest in a wide range of private and public debt investments that would be subordinated to the senior debt in the capital structure.
- This split has been done to accommodate the requirements of those funds that specifically want exposure to private debt investments whilst still offering the flexibility of investing in public debt investments, when appropriate, for those funds that wish to retain that exposure.
- This inevitably leads to some overlap between the sub-funds. This should not result in a significant loss of economies of scale as BCPP can continue to invest in those investments that overlap at scale and allocate the investment across the suitable sub-funds in line with a suitable deal allocation policy. However, it will increase costs overall due to the costs of the additional sub-funds.

## Transition Planning

- 3.11 Following the finalisation of the asset allocation template initial work has been performed on transition planning including a draft transition plan (**Appendix 2**).
- 3.12 Due to capacity constraints at the TPA, and within BCPP Limited itself, and the relatively high risks and costs associated with asset transitions it has been decided to use a phased approach to transition assets over a period of 2 – 3 years. An overview of the phases are as follows:
- **First phase (Jul – Sep 2018)** – internal UK equity (3) and UK fixed income (3) sub-funds (c. £5.5bn of assets). This transition is expected to be relatively straightforward as it relates to 3 markets within the UK (UK equities, UK Government, and UK Corporate) and the assets will be transferred in-specie.



At the same time, the first non-ACS structure for illiquid assets will be launched. This is expected to be a limited partnership structure and will focus on Private Equity. Compared to liquid assets, these are more straightforward as there are no assets transitioning into the sub-fund and it does not require significant input from the TPA.

- **Second phase (Sep – Dec 2018)** – external UK equity (3) sub-funds (c. £2.1bn of assets). Although the original intention was to transfer all of the internally managed assets before transitioning externally managed assets it is now considered appropriate to alternate. This is because the externally managed authorities will be paying an element of BCPP Limited's operating costs from the outset and, therefore, it is equitable that they should receive the benefit of fee savings from economies of scale to counter these costs. This phasing also provides more time to ensure that the internally managed sub-funds are operating effectively.

At the same time, non-ACS structures for UK Indirect Property and Infrastructure will be launched. The Infrastructure sub-fund will follow the same process as the Private Equity sub-fund launched in the first phase. The UK Indirect Property sub-fund may include the transition of investments currently held by all authorities (not just the internally managed authorities). The assets that will be transitioned will depend on the cost and ability to transfer legal title and whether they are permitted by the sub-fund prospectus.

- **Third phase (Jan – Mar 2019)** – internal North American and European equities, and internal Overseas Bonds (c. £2.7bn of assets).

At the same time, the non-ACS structures for Multi-Asset Credit will be launched.

- **Fourth phase (Apr – Jun 2019)** – this phase will focus on the externally managed Global Equities (3) sub-funds (c. £5.6bn of assets). This is expected to be the most complex transition due to the number of external managers currently used, the wide range of markets covered, and the number of administering authorities who will transition assets into these sub-funds. It is also where most of the cost savings from liquid assets will be generated.

At the same time, the non-ACS structures for Private Debt will be launched.

- **Fifth phase (Jul – Sep 2019)** – this phase will focus on the internally managed Japanese, Asia Pacific, and Emerging Markets equities (c. £1.9bn of assets) at which point the transition of internally managed liquid assets will be complete.

At the same time, the non-ACS structure for Global Property and external Multi-Asset Credit will be launched.

- **Sixth phase (Oct – Dec 2019)** – this phase will focus on the externally managed Fixed Income (3) and Diversified Growth Funds (c. £3.9bn of assets).

At the same time, the non-ACS structure for Other Alternatives will be launched.

- **Seventh phase (Jan – Mar 2020)** – this phase will focus on the externally managed Regional Equity (5) sub-funds (c. £1.7bn of assets). Although BCPP is proposing to launch five sub-funds at the same time it is expected that this will be informed by previous sub-fund launches. If at this point, following an evaluation, the risks of launching five sub-funds are considered too high the sub-fund launches will be split into two phases.

- **Eighth phase (Apr 2020 – Mar 2021)** – the last phase involves the transfer of UK Direct Property and is expected to be a relatively complex transition. A provisional agreement from the four administering authorities who currently hold direct property has been reached whereby they may be willing to transfer their properties into a Direct Property sub-fund within the ACS. A detailed cost benefit analysis will be performed, both by BCPP Limited and the authorities providing the seeding properties, before any final agreement is made to determine whether it is cost effective to transition the properties. The working assumption is that if currently held properties are transitioned into BCPP Limited it will be into the ACS structure due to the availability of stamp duty seeding relief.

In the event that a transition of existing assets is not considered appropriate a non-ACS sub-fund will be launched in a similar manner to the other Alternatives sub-funds.

- 3.13 It is anticipated that BCPP will appoint a transition manager(s) from the National LGPS frameworks once it is available (expected November 2017). The transition plan can then be developed further with a view to it being approved by April 2018.

### **Update on MiFID II**

- 3.14 Following engagement with the LGPS MiFID II working group:

- The FCA has included a fourth criterion in the quantitative test which is satisfied if the entity is an administering authority of an LGPS fund.

- The FCA has also clarified that whilst the qualitative test will continue to reference the individual the assessment can include legal entities as well as natural persons and that the collective decision making structure of the client can be taken into account.
- The Investment Association (IA) has adopted a standardised assessment template and associated documents.
- Authorities have started to submit the required documents to the relevant investment managers and advisors in order that they can opt-up to “elective professional” status by the deadline of 3<sup>rd</sup> January 2018.

3.15 Following the above developments it is anticipated that the opt-up process for the LGPS funds will be less onerous than originally feared.

#### **4.0 Next Steps:**

4.1 The preferred suppliers for the TPA and Investment ICT platform will be identified by December 2017.

4.2 The FCA application is expected to be submitted in November 2017.

4.3 Following the approval of the asset allocation template the prospectuses for the sub-funds can be drafted.

4.4 The transition plan will be progressed further and a transition manager(s) will be appointed.

#### **5.0 Conclusion:**

5.1 The design phase of the Operating Model has been completed and the tenders for the two main service providers have been issued.

5.2 The FCA application is being progressed.

5.3 The asset allocation template has been finalised and a draft transition plan has been developed.

5.4 The MiFID II opt-up process for local authorities has been simplified.

#### **6.0 Report Author:**

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## **7.0 Further Information and Background Documents:**

*Appendix 1: BCPP proposed asset allocation template*

*Appendix 2: BCPP draft transition plan*

**BCPP Proposed Asset Allocation Template**

BORDER TO COAST PENSION PARTNERSHIP		43,310,470	100.0%		
<b>BCPP</b>		<b>INTERNAL</b>		<b>EXTERNAL</b>	
<b>ASSET ALLOCATION TEMPLATE</b>		<b>ACTIVE</b>	<b>ACTIVE - MODERATE RISK</b>	<b>ACTIVE - HIGHER RISK</b>	<b>PASSIVE</b>
<b><u>EQUITIES</u></b>					
UK - FTSE 100	856,616				
UK - FTSE 250	285,539		303,674		62,040
UK - FTSE ALL SHARE	2,650,432		845,800	993,711	2,090,519
EUROPE EX-UK	1,234,625		463,682		186,259
NORTH AMERICA	1,224,626		271,356		249,395
JAPAN	440,462		293,518		124,697
PACIFIC EX-JAPAN	1,034,267		169,372		124,697
EMERGING MARKETS	437,826		492,300		233,611
GLOBAL			3,927,081	1,316,735	1,505,240
GLOBAL - NON-MARKET CAP/FACTOR INVESTING			342,450		1,554,470
<b><u>FIXED INCOME</u></b>					
UK GOVERNMENT	496,324		461,584		139,865
UK INDEX-LINKED	1,068,120				1,156,665
UK CORPORATE	90,452		1,996,322	355,140	395,299
OVERSEAS GOVERNMENT	258,102				
PRIVATE DEBT - LOW RISK	303,568				
PRIVATE DEBT - MODERATE RISK	367,659				
MULTI-ASSET CREDIT - LOW RISK	249,837				
MULTI-ASSET CREDIT - MODERATE RISK	918,938				
MULTI-ASSET CREDIT			1,076,495		
EMERGING MARKETS					63,136
<b><u>ALTERNATIVES</u></b>					
PROPERTY - UK DIRECT	1,452,216				
PROPERTY - UK INDIRECT	2,044,629				
PROPERTY - GLOBAL	692,235				
PRIVATE EQUITY	1,989,750				
INFRASTRUCTURE	1,264,666				
DIVERSIFIED GROWTH FUNDS			1,658,604		
OTHER ALTERNATIVES	636,724				
CASH	459,141				
<b>TOTAL</b>	<b>43,310,470</b>				

One sub-fund offered - risk profile to be determined

Deemed to be held outside of the formal pool due to current legal structure

One sub-fund offered for each region - risk profile to be determined

One sub-fund offered for factor investing

One sub-fund offered for UK Govt bonds

One sub-fund offered for DGF's





## BCPP Joint Committee

**Date of Meeting:** 20<sup>th</sup> October 2017

**Report Title:** Proposed BCPP Ltd Responsible Investment Policy and Corporate Governance & Voting Guidelines

**Report Sponsor:** Responsible Investment Lead – Jane Firth

### 1.0 Executive Summary:

1.1 Per the agreed process for approving the BCPP Ltd Responsible Investment Policy and Corporate Governance and Voting Guidelines this paper outlines the proposed BCPP Ltd policy to enable Partner Funds' to achieve their Responsible Investment and stewardship responsibilities.

### 2.0 Recommendation:

2.1 That Members approve the BCPP Ltd Responsible Investment Policy and the Corporate Governance and Voting Guidelines and recommend to their Committees that their individual policies in this regard are aligned to this policy so as to ensure all can comply with the LGPS Investment Regulations.

### 3.0 Background:

3.1 The responsibility for Responsible Investment (RI) and Stewardship remains with the administering authority (AA) as referenced in the LGPS 'Guidance on Preparing and Maintaining an Investment Strategy Statement' (amended July 2017). The Regulations require every AA to have a policy that reflects their stewardship responsibilities which includes a voting policy. Individual Authorities will, therefore, continue to require policies on RI and Stewardship. As BCPP Ltd will be charged with delivering any RI and Stewardship policies on behalf of Partner Funds, it is essential that policies are aligned and support those of BCPP Ltd. This is necessary so that policies can be implemented and to deliver what the Partner Funds' require ahead of the 'go live' date.

3.2 The attached RI Policy and Corporate Governance and Voting Guidelines have been developed to reflect best practice. They have been arrived at by reviewing Partner Funds current policies along with those of a number of asset managers seen as leaders in this area. The policies are high level documents which will

require detailed procedures on implementation; these will be developed as soon as is practicable.

- 3.3 Pooling presents an opportunity for the twelve Partner Funds to develop RI and Stewardship through dedicated resource at BCPP Ltd and collaboration with other pools and shareholder groups. It will utilise its scale and influence through share voting and engagement.
- 3.4 The proposed process will be to annually review the proposed BCPP Ltd policy at the Joint Committee meeting in December each year for implementation in the following April. This will enable the partner Funds the time to make any changes required to their policies to ensure alignment. The process will involve BCPP Ltd, the Joint Committee, and the Officer Operations Group. Reporting will be done on a quarterly basis to the Joint Committee, the Officer Operations Group, and to the individual Partner Funds.

#### **4.0 Conclusion:**

- 4.1 In order for BCPP Ltd to satisfy the needs and regulatory requirements of the Partner Funds it is essential that policies relating to Responsible Investment and Stewardship are aligned both at Fund and Pool level.

#### **Report Author:**

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#### **Further Information and Background Documents:**

*Appendix 1: Border to Coast Pensions Partnership Responsible Investment Policy*

*Appendix 2: Border to Coast Pensions Partnership Corporate Governance and Voting Guidelines*





## Responsible Investment Policy

This Responsible Investment Policy details the approach that BCPP will follow in fulfilling its commitment to the partner funds in the delegation of RI and stewardship responsibilities.

### 1. Introduction

The primary objective of the Border to Coast Pensions Partnership (BCPP) is to ensure that all funds can 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. Environmental, social and governance (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. Well-managed companies with strong governance are more likely to be successful long-term investments. BCPP will be an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the BCPP UK Stewardship Code compliance statement.

### 2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process, to better manage risk and generate sustainable, long-term returns. Investment stewardship, which involves being an active owner and using shareholder rights to improve long-term performance, is also an integral part of the process. 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 should take into account any factors which are financially material to the performance of an investment including ESG factors.

### 3. Governance and Implementation

The Responsible Investment Policy is jointly owned and created after collaboration and engagement with the 12 Partner Funds. Implementation and oversight of the policy is by the Chief Investment Officer (CIO). The policy will be monitored with regular reports to the CIO, Board, Joint Committee and Partner Funds. It will be reviewed at least annually or whenever revisions are proposed, and updated as necessary.

### 4. Skills and competency

BCPP will, where needed, take proper advice in order to formulate and develop policy. The Board and investment staff will maintain appropriate skills in responsible investment

and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil these responsibilities.

## 5. Integrating RI into investment decisions

BCPP will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that BCPP, as a long term investor, take them into account when analysing potential investments. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to internally managed assets and also within externally managed mandates. Integration and implementation will be via the CIO.

Issues considered include, but are not limited to:

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>	<b>Other</b>
Climate change Resource & energy management	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Bribery & corruption

### 5.1 Climate change

BCPP will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. It poses significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. BCPP will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable
- Incorporate climate considerations into the investment decision making process
- Engage with companies in relation to business sustainability and disclosure of climate risk inline with Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD)<sup>1</sup> recommendations
- Encourage companies to adapt their business strategy in alignment with a low carbon economy
- Support climate related resolutions at company meetings where appropriate
- Co-file shareholder resolutions at company AGMs where appropriate on climate risk disclosure
- Monitor and review its fund managers in relation to climate change approach and policies
- Collaborate with other investors including other pools and groups such as LAPFF
- Engage with policy makers with regard to climate change
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<sup>1</sup> The Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions. <https://www.fsb-tcfd.org/publications/final-recommendations-report/>

## 6. 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. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, BCPP is a signatory to the UK Stewardship Code<sup>2</sup> and its statement of compliance can be viewed here xxxxxx. All external fund managers will be expected 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. Managers will be required to report back to BCPP regarding their RI activities on a regular basis.

### 6.1 Voting

Voting rights are an asset and BCPP will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where practicable. In order to leverage scale and for practical reasons, BCPP has developed a collaborative voting policy to be enacted by BCPP on behalf of the Partner Funds which can be viewed here xxxxxxxx. A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of BCPP by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually. There may be occasions when an individual fund wishes BCPP to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

BCPP has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. BCPP has created procedures along with its external providers to enable stock to be recalled prior to a shareholder vote in certain circumstances. This will only occur if the benefits of voting outweigh the benefits of stock lending. Stock will be recalled ahead of meetings when:

- The resolution is contentious
- The holding is of a size which could potentially influence the voting outcome
- BCPP needs to register its full voting interest
- A shareholder resolution has been filed.
- A company is seeking approval for a merger or acquisition
- BCPP deems it appropriate

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<sup>2</sup> The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>

Lending can also be restricted in these circumstances.

Where appropriate BCPP will consider co-filing shareholder resolutions and will notify Partner Funds in advance.

## **6.2 Engagement**

The best way to influence companies is through engagement; therefore BCPP will not divest 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.

Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place with companies across all markets where possible, as well as with external fund managers.

BCPP will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

BCPP will seek to work collaboratively with other like-minded investors and bodies in order to maximise its influence, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively collaborating with various other external groups e.g. The Local Authority Pension Fund Forum (LAPFF), other LGPS pools and other investor coalitions.

BCPP will engage with regulators, public policy makers, and other financial market participants as and when required.

## **6.3 Litigation**

Where BCPP holds securities which are the subject of individual or class action securities litigation, it will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. BCPP will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. BCPP will work with industry professionals to facilitate this.

## **7. Communication and reporting**

BCPP will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on BCPP's website quarterly; reporting on engagement and RI activities to the Partner Funds; and in the annual report.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

## **8. Training and assistance**

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.

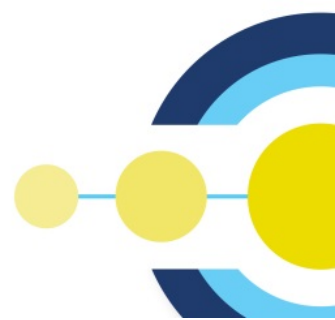
## 9. Conflicts of interest

BCPP's Conflicts of Interests policy will be disclosed and applied to identify and manage any conflicts of interest between the Partner Funds and BCPP.

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# Corporate Governance and Voting Guidelines



## 1. Introduction

Border to Coast Pensions Partnership (BCPP) believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner BCPP will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. BCPP considers the UK Corporate Governance Code and other best practice guidelines in formulating and delivering its policy and guidelines.

## 2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and

assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

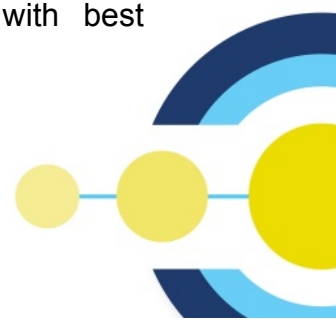
Where a decision has been made not to support a resolution at a company meeting, BCPP will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances attendance at AGMs may be required.

BCPP discloses its voting activity on its website and to Partner Funds on a quarterly basis.

BCPP will support incumbent management wherever possible but recognises that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

It will vote **For**, **Abstain** or **Oppose** on the following basis:

- BCPP will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.





- BCPP will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- BCPP will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

### 3. Voting Guidelines

#### Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders.

#### Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge in order to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

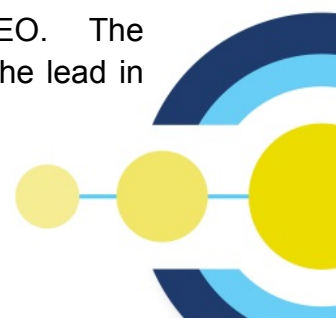
The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors. As they have a fiduciary duty to represent and act in

the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:-

- Representing a significant shareholder.
- Served on the board for over nine years.
- Has had a material business relationship with the company in the last three years.
- Has been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.

#### Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in



communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles.

### **Non-executive Directors**

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. In order to do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

### **Diversity**

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of

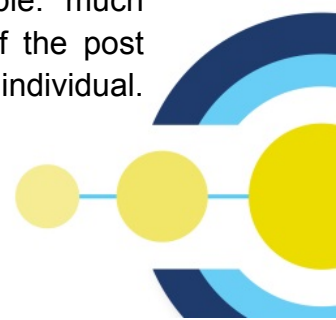
boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent. Companies should consider candidates from all racial and religious backgrounds and look to increase the level of female representation on boards in line with best practice; a diversity policy should also be disclosed in the Annual Report.

### **Succession planning**

BCPP expects the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman except when it is appointing the Chairman's successor. External advisors may also be employed.

### **Directors' availability and attendance**

It is important that directors have sufficient time to devote to the company's affairs; therefore full time executives should not hold more than one non-executive position in a FTSE 100 company nor the chairmanship of such a company. With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual.



Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings.

### **Re-election**

In order for a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent in order to appropriately challenge management. In order to achieve this, boards need to be regularly refreshed; therefore all directors should be subject to re-election annually.

### **Directors' remuneration**

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to

salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that there is a wholly independent remuneration committee.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

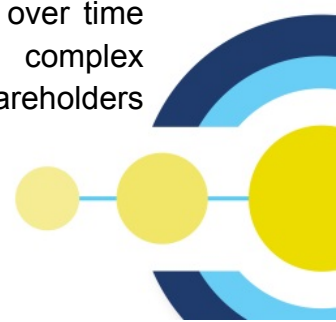
In order to ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

#### **• Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to performance over the longer-term.

#### **• Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders



to adequately assess. BCPP therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. Performance should therefore be measured over a period in line with the company's strategy; this should be at least three years but preferably longer. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets.

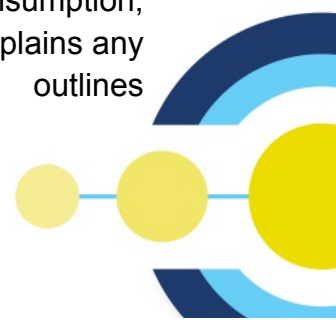
## **Directors' contracts**

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore all executive directors are expected to have contracts that are based upon no more than twelve months salary. Retirement benefit policies of directors will also be scrutinised. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

## **Corporate reporting**

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines



reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. BCPP will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

### **Audit**

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts, and maintain the confidence of the capital markets. The audit committee should consist of at least three members who are all independent non-executive directors. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

### **Non-Audit Fees**

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three year aggregate basis, unless sufficient explanation is given in the accounts.

### **Political donations**

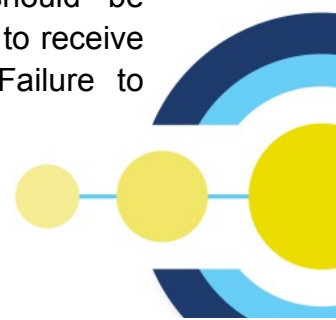
There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. It is therefore prudent to oppose all political donations.

### **Shareholder rights**

As a shareowner, BCPP is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

#### **• Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to





seek approval would elicit opposition to other resolutions as appropriate.

- **Voting rights**

Voting at company meetings is the main way which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. BCPP will not support measures or proposals which will dilute or restrict its rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

BCPP supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

## **Share Repurchases**

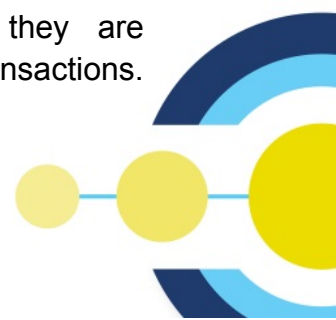
BCPP does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

## **Memorandum and Articles of Association**

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of BCPP, presented as separate resolutions for each change, and the reasons for each change provided.

## **Mergers and acquisitions**

BCPP will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions.



Recommendations regarding takeovers should be approved by the full board.

### **Articles of Association and adopting the report and accounts**

It is unlikely that BCPP will oppose a vote to adopt the report and accounts simply because it objects to them per se; however there may be occasion when it might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, BCPP will oppose the changes.

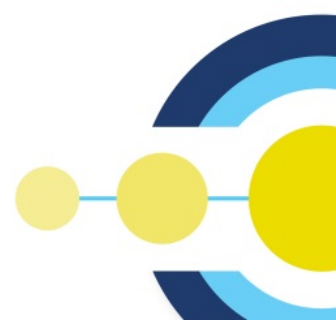
### **Investment trusts**

BCPP acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards and should not necessarily be required to report on such matters as environmental issues. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be

supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

BCPP may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.



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## BCPP Joint Committee

**Date of Meeting:** 20<sup>th</sup> October 2017

**Report Title:** Feedback on National Working Groups

**Report Sponsor:** Member of Officer Operation Group – Jo Ray

### 1.0 Executive Summary:

1.1 Since the last Joint Committee, Officers have attended meetings of the Cross Pool Collaboration Group, the Cross Pool Infrastructure Group, the Cross Pool Responsible Investment (RI) Group and the Cross Pool Tax Group.

### 2.0 Recommendation:

2.1 The Joint Committee is asked to note this update report.

### 3.0 Background:

3.1 The summarised highlights from each of the national working groups attended since the last meeting of this Member group are shown below:

3.2 *Cross Pool Collaboration Group (last meeting 6<sup>th</sup> September) –*

- LGA (Jeff Houston) updated the group on the following:
  - Ministers letter – DCLG generally happy with progress to date, and requiring progress reports in October. They do have concerns with three funds and their progress with pooling, and they will be having conversations with them.
  - Fund and pool reporting – Reporting requirements group being set up with CIPFA, DCLG, LGA, SAB, Treasury and pool representatives. This will look at what Government require in reporting terms and also what should be presented in the annual report and accounts of the Funds.
  - Cost transparency – pools will need to sign up to the new framework, and funds should encourage their current managers to sign up. Institutional Disclosure Working Group (IDRG) is using the current LPGS cost template as a base and looking to roll it out across the industry.

- MIFID II – all information regarding the opt-up process and documentation is available on the SAB website. Longer term initiative is to get further flexibility for Funds investing through pools, e.g. if funds are investing through pools they are considered professional by default. CIPFA's PS Live offering was discussed as a tool for assisting with the opting up process.
  - DWP are very interested in the development of the pools, and how it might be linked to consolidation of pension funds in the private sector.
  - Fund resourcing – a letter had been sent to all S151's by CIPFA, reminding them of their responsibilities and to ensure Pension Funds were adequately resourced. The Pensions Regulator's (tPR) interest in public sector schemes is increasing in this area.
- National Frameworks (Nicola Mark) attended and updated on the following:
    - The framework for Investment Consultancy would be live in October
    - The framework for Transition Management was going out to tender in September.
    - Consideration was being given to frameworks in mortality screening and AVC providers.
    - Legal advice was being taken to see whether the Custody framework could be extended for a further 18 months.
    - An annual meeting would be held in November, and all Funds were invited.
  - Updates were provided by each Pool.
  - It was agreed that transition needed to be a standing agenda item going forwards, to share plans and highlight risks.

### 3.3 *Cross Pool Infrastructure Group (last meeting 28<sup>th</sup> September)*

- Discussions centred on progress to date and proposed response by each pool to the DCLG Autumn submission. All agreed that their response would be reset and restate the Spring update.
- Due to pressures no pools (other than Northern / LPP through the existing GLIL vehicle) had made any further progress on establishment of the national platform, although several had increased actual allocations or proposed allocations following asset allocation reviews post triennial valuation.
- It was agreed that as pools all progress towards go-live, meeting dates for this group needed to become more regular, so that any national platform agreed can align with pools go live dates and their ability to invest in it.

### 3.4 *Cross Pool Responsible Investment Group (last meeting 12<sup>th</sup> September)*

- LAPFF Chairman Cllr Kieran Quinn attended the July meeting and explained how LAPFF works with its fund members and set out how it could work for pools in the future. He welcomed the opportunity provided by the meeting to gather feedback from the committee attendees on suggestions or concerns from the pool perspective and feed these back to the LAPFF executive committee in his report to their next meeting.
- Each pool updated the group on its progress.
- LAPFF Climate Change Framework – the representative from LPP had coordinated feedback on this document from the cross pool members, and this had been incorporated into an updated version going to LAPFF Executive later in September. This will go to a LAPFF Business Meeting for comment, so LAPFF members will get the chance to comment again – all members need to be satisfied with the Framework.
- Discussion was had on the possibility of pools funding cross pool RI research in the future.
- There would be a formal review on the benefits of the cross pool RI group in the Spring, and there was a general feeling that it would be beneficial to continue with this group once pools were all live.

### 3.5 *Cross Pool Tax Group (last meeting 26<sup>th</sup> September)*

This was the first meeting of this group, and its role was to look across the various tax areas and the implications and considerations for the pools and funds. The issues discussed are set out below:

- VAT
  - consideration of a single or a group VAT registration.
  - distinction between exempt and taxable supplies - ruling expected in the United Biscuits case in Q4 2017.
  - treatment of pre-trading expenditure.
  - timing of VAT registration - voluntary or mandatory election.
  - pools will be subject to some irrecoverable VAT.
  - investment management and custodian expenses are VAT exempt, depositary and overheads subject to VAT.
  - non-EU VAT is reclaimable, EU VAT is not, VAT on property may be reclaimable.
  - need to establish VAT position for each cost item.

- investment management services provided by the pool to the ACS should be exempt, investment advice provided to the administering authorities are expected to be subject to VAT which should be recoverable by the authorities.
- Corporation Tax
  - can pre-trading expenditure be used for offsetting profit?
  - transfer pricing risk and arms-length pricing - external costs e.g. external manager fees can be passed through but internal costs cannot just be passed through and modest profit margin may need to be applied.
  - need to register for corporation tax within 3 months of commencing a business - defined as employing staff.
- ACS withholding tax
  - Positive impact in France (0% in ACS v. 15% WHT in pension fund) and Sweden (0% v. 5%).
  - Often a poorer outcome in Emerging Markets - ACS may not be the right vehicle.
  - Custodian responsible for securing tax clearances (under direction from client) but can take up to 6 months.
- ACS transfer taxes (e.g. stamp duty)
  - Potential transfer tax liability on transfer into ACS.
  - UK - automatic in-specie exemption but needs to be an application for relief.
  - Other key clearances are Ireland, Switzerland, and Hong Kong.
  - Italy can be problematic.
  - Potential for non-resident capital gains tax - high risk countries are India, Indonesia, Mexico, Thailand, and Argentina
- Property
  - ACS seeding relief - not available for Scottish property.
  - 3 year clawback of relief if monies redeemed from ACS - does not prevent transactions within the ACS.

### 3.6 *Working Group on Transparent Reporting Post Pooling (last meeting 2<sup>nd</sup> October)*

This was the first meeting of this group, and its role was to look at how transparent reporting can be achieved post pooling to meet the requirements of various stakeholders. The issues discussed are set out below:

- CIPFA, DCLG, LGA, GAD, Cabinet Office and pools were represented.

- CIPFA explained the current accounting requirements based upon the CIPFA Accounting Code and also the existing guidance around “example accounts” and annual report guidance, which have seen a significant improvement in financial reporting in recent years. The Accounting Code is overseen by a national board and follows IFRS, so is more onerous to achieve change.
- LGA set out the current SAB initiatives from the GAD standardised valuations, KPI reporting and annual report consolidation which have enhanced the current national reporting position, along with the DCLG SF3 form.
- DCLG were looking to minimise the overall workloads/reporting requirements by adapting existing methods.
- The reporting requirements will be dependent on the individual pool models adopted, and their financial reports will be driven by UK accounting and FCA rules.
- In creating Pools, the Funds need to set explicit reporting requirements to ensure the Funds can meet their obligations for accounting, transparency and pooling.
- The Group agreed to reconvene once the specific issues were identified with aim of creating a work plan to address each of these issues. In summary the issues were noted as:
  - What are asset class definitions in the Net Asset Statement?
  - What are the expected Asset Pool reporting requirements?
  - What are the likely reporting outputs for costs and performance for assets within and outside Asset Pools?
  - Can Net Performance be clearly defined?
  - How should transition costs be reported?
  -

### 3.7 *MiFIDII LGPS Working Group*

- No further meetings were held of this group. The final regulations published by the FCA in late June included an additional quantitative test to allow for any administering authority of the LGPS to meet the requirements, in addition to having a portfolio of more than £10m.
- A standard letter and template was produced by the SAB, in conjunction with the LGA and the Investment Association, simplifying the opt-up process across all Funds.

- Funds were expected to have submitted opt-up requests to their managers by 30<sup>th</sup> September, to enable the 3<sup>rd</sup> January deadline for opting up to professional status to be met.
- A further meeting may be held to discuss issues with Funds accessing certain alternative investments for the first time (e.g. private equity).

#### **4.0 Conclusion:**

4.1 Substantive work and engagement with different agencies continues to be progressed on a range of matters to ensure the LGPS can secure best value and exercise its collaborative influence wherever appropriate.

4.2 Dates of the next meetings are as follows:

Cross-pool Collaboration Group – 26<sup>th</sup> October 2017

Infrastructure sub-group – 30<sup>th</sup> November 2017

Responsible Investments sub-group – 23<sup>rd</sup> November 2017

Tax sub-group – mid November 2017

Transparent Reporting Working Group – date to be confirmed

MiFIDII LGPS Working Group – date to be confirmed

#### **5.0 Report Author:**

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