



BCPP Joint Committee

Date of Meeting: 16th January 2018

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, the Cross Pool Tax Group and the Cost Transparency Working 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 the national working groups attended since the last meeting of this Member group are shown below:

3.2 *Cross Pool Collaboration Group (last meeting 30th November)*

- LGA (Jeff Houston) updated the group on the following:
 - MIFID II – one Fund fully opted up. Meetings with IA (Investment Association) and BVCA (British Private Equity and Venture Capital Association) about future relationships between managers and potential clients not opted up – LGA will issue guidance.
 - Cost transparency – next meeting of working group 13th December to discuss what reporting might look like. LGA liaising with CEM about how to define costs to ensure consistency of information collected.

- Cross Pool Member Group – an invitation from SAB will be sent out in the new year to all Pensions Committee and Local Pension Board Chairs.
- Resourcing at Funds – Following CIPFA's letter to S151 Officers about resourcing concerns, it was suggested that DCLG should also write out to administering authorities. New regulations within IORPII may introduce a fit and proper test, and within the regulation it states that everyone responsible for a retirement fund, as a collective, needs to be experienced, knowledgeable and qualified. Further conversations with DWP and Treasury need to take place.
- Central Government updated the group on the following
 - DCLG – happy with progress being made. There appear to be some delays around recruitment and FCA authorisation, but nothing is a significant concern. Given the large contracts being entered into, DCLG is concerned whether there is expertise in the client side contract management. Concerns should diminish as new governance and staffing structures are put in place and bedded in.
 - Treasury – no mention of LGPS in the budget, no concerns raised.
 - Cabinet Office – Keen to progress cost transparency. Hoping to see more progress in the infrastructure area.
- Updates were provided by each Pool.
- National Frameworks (Nicola Mark) attended and updated on the following:
 - The annual meeting was held in November, 84 funds have used frameworks and over £87m savings delivered since it began.
 - The framework for Transition Management was now live.
 - Consideration was being given to a framework on Administration system providers.
 - The Custody framework had been extended to April 2019. Funds will need to identify what they will need post pooling before this is retendered.

3.3 *Cross Pool Infrastructure Group (last meeting 6th November)*

- It was agreed that meetings would be monthly going forwards, in line with the main cross-pool meetings.
- A presentation was given on the progress of GLIL, the infrastructure vehicle created by LPP and GMPF. Going forwards, it is expected that GLIL will evolve into a regulated, open ended AIF (Alternative Investment Fund) structure. Discussion was had around funds existing investments,

and how new investors might access GLIL, and what its future offerings might be.

3.3 *Cross Pool Responsible Investment Group (last meeting 23rd November)*

- Positive feedback was received from the RI sessions presented at the LGA Fundamentals training, delivered by members of this group. A set of slides is available should anyone wish to use them to provide training to their committees. Jane Firth will provide them on request and will co-ordinate any updates.
- LAPFF
Approach to pools - still being discussed and they are seeking legal advice.

Constitution – will be taken to the January meeting, and this group will feed into the review – the key points of issue are:

- PIRC conflict of interest
- Tenure of Executive
- Diversity – mix of officer and Member representation

Climate Change Guidance – framework is now on the LAPFF website. Funds are encouraged to utilise the guidance.

- FRC
Corporate Governance Code – a consultation is expected before Christmas – will look to meet FRC to input into consultation.

Stewardship Code – a consultation is expected in the summer.

TCFD (Task Force on Climate-related Disclosures) – two members of the RI Cross Pool group are sitting on a sub-group looking at the recommendations, which are fully endorsed by UK Government.

- Fossil Fuel/Climate Change – Funds had received pressure from climate change group "Fuelling the Fire", responses would be shared to build up a response resource. Share Action were with Central Pool representatives in December. They will be looking to rank pools next year. Discussion was had about inviting Share Action to the next meeting to assist them in their understanding.
- Updates were provided by each Pool.

- Lothian and NILGOSC are keen to engage with the group – it was agreed to invite them to future meetings and share minutes.
- Communication with pools was discussed – a confidential location for sharing information would be explored.

3.4 *Cross Pool Tax Group (last meeting 29th November)*

- VAT
 - Central to consider collaborative approach to HMRC on the issue of whether VAT attributable to non-EU ACS costs is irrecoverable. Advice given is that calculating the EU/non-EU split on VAT incurred by the ACS, with the portion attributable to non-EU recoverable, is a relatively accepted practice – the mechanics are expected to be confirmed with the HMRC officer when Central get a meeting. The outcome of that meeting is needed before a decision on a collaborative approach can be made.
 - Central is still waiting to hear back from HMRC following the submission in September of a letter requesting a single VAT registration and confirmation that set up costs are an exempt supply. HMRC had issued a briefing note on the VAT treatment of pension fund management services provided by insurance companies.
- Corporation Tax
 - Central will be assessing the deductibility of pre-trading expenditure, building up a file of evidence for transfer pricing and building up a file of evidence for debt relief in Q1 18/19, when they will have a Head of Finance.
- ACS withholding tax (WHT)
 - Central shared a list of countries that their advisors are engaging with on WHT. LCIV to share their WHT rates for their Emerging Markets ACS.
- ACS transfer taxes
 - Central supplied a list of the overseas countries currently charging transfer taxes.
 - Brunel is still discussing a proposal for a SDRT (stamp duty reserve tax) exemption for all pools.
 - LCIV was refused exemption for Irish transfer tax.
 - PWC are working with Central on transfer tax clearances across a number of countries.
- ACS Non-Resident CGT (Capital Gains Tax)

- There are a number of high risk countries that Central's advisor, PWC has identified. It has proved difficult to collect all the relevant information required from the partner funds to assess possible tax liability.
- Property
 - Central discussed with its advisers a mechanism for sharing their tax advice in this area and the method of a collaborative approach to HMRC on the GDO requirement. PWC advised that HMRC's Funds' Team likes to look at each case on its merits and advised Central in the first instance to go it alone. Central expect to initiate conversations with HMRC in the next few months.

3.5 *Working Group on Transparent Reporting Post Pooling (last meeting 13th December)* – Proposals were discussed for LGPS fund reporting in a 'pooled world'

- CIPFA code of transparency – a template will go out to all managers to report costs. There is further consultation being had with IDWG (Institutional disclosure working group). This is not a FCA requirement so some managers may not comply.
- There was general agreement on the proposals for three investment vehicle types:
 - 1) LGPS Pools
 - 2) Other pools (Any other unit price derived)
 - 3) Segregated Mandates.

This allows ability to view shifts between pools over time. Further categories discussed: cash, or cash for cash for each propose vehicle.

- There was agreement on proposed asset category listing, although further details are needed on definitions of what should be included in each.
- Within derivatives, discussion was had as to what should be included here, e.g. risk overlays?
- Discussion was had around whether or not to split the global mandate, which will surely include some UK exposure as well. Majority opinion was towards leaving any global strategy under purely global.
- Costs – a number of issues around costs were discussed:

- What will be used as a baseline? Use CEM? Need to separate initial set-up costs and ongoing costs.
- How to report – Against vehicle? Asset class?
- Transaction Costs – currently only equities and FI, potential for property to be included.
- Accuracy of costs – Will funds be able to get gross and net performance figures?

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 – 25th January 2018

Infrastructure sub-group – 30th January 2018

Responsible Investments sub-group – 24th January 2018

Tax sub-group – late January 2018

Transparent Reporting Working Group – date to be confirmed

5.0 Report Author:

Jo Ray

jo.ray@lincolnshire.gov.uk

01522 553656