

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

14 SEPTEMBER 2017

Report of the Interim Fund Director

POOLING UPDATE

1) Purpose of the Report

To update on the progress of pooling in the Border to Coast Pension Partnership (BCPP Ltd).

2) Recommendation

That Members note the report.

3) Background information

3.1 An extract from the latest available project team progress report to the Joint Committee is attached for information. A further report will be made to the next Joint Committee meeting, scheduled for 20 October 2017.

Joint Committee papers are available on the following link:

<http://meetings.southyorks.gov.uk/ieListMeetings.aspx?CId=441&Year=0&zTS=C>

3.2 Verbal updates were given by project team members at the last Officer Operations Group meeting (22 August 2017) covering the following items.

Overall project timeline/progress

No movement reported on the project plan go-live date of June 2018, although slippage was noted in the senior appointments timeline and pressures were noted on workload.

Operating Model Workstream

- Procurement timetable - Depositary/Third Party Administrator, ICT investment platform
- Advice permission level to be sought from FCA
- Transition timeline
- Asset allocation template
- FCA authorisation process
- Integration of Responsible Investment/ESG

People Workstream

- Executive/ Director recruitment progress

- Staff structure proposal
- Property update
- LGPS admission and guarantee

Governance Workstream

- Current procurements – corporate ICT, bank, payroll provider
- Future procurement timetable
- Joint Committee: next meeting, Friday 20th October

MiFID II - Template for opting up to elective professional status

- See below for update.

4. Commentary on some of the specific items from above

There is significant information in the attached appendix on progress reported earlier to the Joint Committee. Below gives some relevant updates.

4.1 Advice permission and Transition timetable: staff and asset transition management for internally managed funds.

This relates to the level of FCA permission BCPP obtains to manage assets pending full transfer and the consequential staff and asset transitional change plan. The BCPP project team propose to apply for FCA approval to provide an advisory service from June 2018 to enable business as usual for internal funds from that date and that internal investments teams TUPE transfer on that date. Assets will transition in a phased manner so that BCPP will action SYPA investments from June 2018 in an advisory capacity with SYPA retaining a final 'execution' authority over those decisions until all relevant assets are transferred. Once relevant assets are legally transferred to BCPP Ltd, they will undertake all aspects of day to day management thereon.

4.2 Asset allocation template

Work is progressing to agree the range of investment sub-funds that BCPP will offer to meet the differing investment requirements of the 12 partner funds. These are largely agreed with some areas still under discussion. SYPA and at least one other Fund are seeking a specific sub-fund to meet strategic investments in private debt funds. These are essentially illiquid investments aimed at delivering a higher contribution in line with our recently agreed investment strategy.

4.3 Integration of Responsible Investment/ESG

A separate report on the agenda addresses the above.

4.4 Executive Recruitment.

The Interview process for the Chairman and CEO of BCPP Ltd have now been completed with candidates appointed. Chris Hitchin was appointed as Chairman in July 2017 and a press release was circulated earlier. At time of writing the outcome of the August 2 recruitment process for the CEO in August 2017 was awaited. A verbal update will be given at the meeting.

4.5 Staff structure proposal for BCPP

A draft staffing structure has been developed for consideration. This is expected to be reported to the Joint Committee 20 October 2017. Budgetary implications will need to be considered. The Shareholder body is responsible for agreeing the budget for BCPP and this would form a significant element of that budget.

4.6 Property update: BCPP Ltd Office Accommodation

A range of properties in central Leeds have been reviewed by the project team and members. A proposal will be considered by the Joint Committee on 20 October.

4.7 LGPS admission and guarantee

SYPA has agreed to host the employees of BCPP Ltd who are given access to the LGPS as part of their terms and conditions; subject to appropriate arrangements being in place. This is intended to include a guarantee, currently being drawn up by the project team, so that SYPA is not placed in a disadvantageous position. Should BCPP Ltd cease operations for any reason any pension liabilities are intended to be underwritten by all partners.

4.8 MiFID II - Template for opting up to elective professional status

Steps necessary to respond to the implementation of this directive are set out in a separate report on the Investment Board agenda 14 September 2017. MiFID II is cited on the Authority's risk register and refers to the Markets in Financial Instrument Directive 2014/65/EU. The major issue for all LGPS funds is arranging to opt up to 'professional' client status with relevant counterparties so that business can be conducted as usual. Without opt up local authorities/LGPS funds would default to 'retail' client status involving higher (undesired) protection levels aimed at ensuring investment products are suitable and fully explained for retail customer's needs. This isn't relevant to our business and protections risk coming at a price of limited access to investments and many institutions potentially reluctant to deal with 'retail' clients. The report explains a common process now established which we will adopt to gain 'opt up' status as required to manage and mitigate risks.

5. SYPA post pooling structure and related matters

A separate report on the Authority's agenda 5 October 2017 will address post pooling issues and related staffing matters. The ability to transfer investment staff outlined at 4.3 above is subject to resources being in place to manage the transition implications for SYPA. The report will propose the post pooling structure and should enable posts to be filled consistent with this timeframe.

6. Implications

6.1 Financial

As previously reported the transition to pooling will incur additional set up costs and increased ongoing costs over at least the medium term. Monitoring the performance of BCPP and the costs of the service will be a key issue moving forward.

6.2 Legal

SYPA is in a contractual relationship with 11 other partners who form the shareholders of BCPP Ltd. Governance arrangements have been separately reported to the Authority (March 2016) when seeking approval to formalise arrangements with BCPP Ltd.

6.3 Diversity

There are no particular diversity implications.

6.4 Risk

There are a range of risks involved in setting up new arrangements which are being managed by the project team. There is an unquantifiable risk that the Fund might not perform as well under new arrangements. A separate report to the Authority, 5 October 2017, will address the post pooling staffing structure and related matters.

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Background papers used in the preparation of this report are available for inspection at the offices of the Pensions Authority.