

SOUTH YORKSHIRE PENSIONS AUTHORITY

7 June 2018

Report of the Fund Director

Pooling Update

1) Purpose of the Report

To provide members with an update on developments in the process of pooling the Authority's investments within the Border to Coast Pensions Partnership (BCPP).

2) Recommendations

Members are recommended to:

- a) **Note the contents of this report and the progress being made with the pooling process.**
 - b) **Consider the arrangements for determining how to cast the Authority's vote in relation to BCPP shareholder directors.**
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3) Background Information

- 3.1 This is the latest in a series of reports providing members with an update on progress in implementing the arrangements for pooling the Authority's investments through Border to Coast Pensions Partnership (BCPP).

Staffing and Industrial Relations

- 3.2 Following approval of changes to the post-pooling structure agreed at the Authority's last meeting the restructure process for the finance team has been completed with no negative impact on staff. In addition Sharon Smith has been assimilated into the new role of Head of Investment Strategy. Preparations are being made to advertise the new role of Investment Analyst in order to fill the role as quickly as possible.
- 3.3 Arrangements to transfer six of the Authority's investment staff to BCPP have been agreed following a number of discussions with BCPP, the affected staff and Unison. Appropriate roles have been identified for each of the staff as set out in the table below:

Role	Name	Specialism
Portfolio Manager - Equities	Ross Martin	UK
Portfolio Manager - Equities	Shaun Lovett	US
Portfolio Manager - Equities	Myles Andrews	Asia/Emerging Markets
Portfolio Manager - Alternatives	Peter Turnor	Alternatives
Head of Responsible Investment	Jane Firth	Responsible Investment
Portfolio Manager - Bonds	Kevin Palmer	Bonds

Staff currently working for East Riding will take roles as portfolio managers covering UK equities and European equities in addition to the above roles allocated to SYPA staff.

- 3.4 These staff will transfer on their current terms and conditions as required by the TUPE regulations.
- 3.5 Members will be aware of correspondence with Unison on the subject of the recognition of Trades Unions for the purposes of collective bargaining. BCPP have subsequently invited Unison to meet with them and discuss their areas of concern, although as yet it is not known whether there has been any response to this. This issue is, in governance terms, one for the BCPP Board to resolve. As indicated in the letter sent by the Chair to all members of the Authority on this subject the position taken by SYPA is that we are strongly supportive of the recognition of trade unions.
- 3.6 BCPP continues to recruit in order to bring the organisation up to strength in all areas, and has been successful in attracting staff at a range of levels across the whole range of its activities.
- 3.7 The company will be moving into their new offices at Toronto Square in central Leeds at the beginning of June with staff subject to TUPE transferring on 2nd July.

Asset Transition

- 3.8 BCPP has now received the necessary approvals from the FCA for both the organisation and the investment structures and the process of transferring assets from SYPA into BCPP's new pooling structures will commence on 2nd July with UK and overseas developed market listed equities. At this point SYPA will transfer the relevant holdings to a transition manager who will restructure the portfolios to achieve BCPP's required starting point and then transfer them to BCPP. This process will take around a week and will be overseen by a Transition

Adviser whose role on behalf of SYPA as investor is to ensure that any impact on value is minimised.

- 3.9 It had originally been intended to transfer emerging market equities in this transition, SYPA is the seed investor for this sub-fund, with Teeside moving assets into it at a later stage from a current passive fund. However, the results of the TUPE process mean that BCPP will not at this point have sufficient resource in place to be able to manage these assets. Consequently officers have agreed with BCPP to delay this transfer until the full BCPP team is in place, probably in September. SYPA will have staff in place who can continue to manage this portfolio until the point of transition, and while this will have some impact on the rate at which retained staff can transition into their new roles it reduces the risk to SYPA around the transition of these assets. The fact that BCPP have maintained dialogue on this and taken an approach which focuses on doing things right rather than achieving an arbitrary timetable reflects well on their overall approach and on the nature of the relationship they wish to develop with investor funds.
- 3.10 Prior to the final authorisation of the transition of assets a full due diligence exercise is being undertaken and details of this process will be reported to the Investment Board at its next meeting later this month. This work is being accompanied by a significant amount of work to ensure that things like tax documentation are in place for each individual holding. Appropriate delegation arrangements were agreed at the last meeting to allow for the relevant decisions to be taken in the required timescales.
- 3.11 The remainder of the Fund's internally managed assets, except property, will be managed by BCPP through an advisory agreement until they transfer into pooling structures. Management of the property portfolio will be reviewed as BCPP develops its internal expertise prior to pooling.
- 3.12 BCPP are developing a pooling structure for "alternative" assets such as private equity which it is anticipated will be launched towards the end of the calendar year. The structure chosen could allow some existing investments to be held within the structure, while not being pooled. While this option will not be immediately available it does present an opportunity for the Authority to consider options to transition assets more quickly and simplify the management of this element of the portfolio which is becoming more complex as it grows as a proportion of the total portfolio.

Governance

- 3.13 At the last meeting of the BCPP Joint Committee and subsequent Board meeting proposals were agreed to appoint 2 "shareholder" non-executive directors, who should be councillors able to meet the FCA's "fit and proper" test to be directors of a regulated entity. The agreed

process is for the Joint Committee to agree through an exhaustive ballot process two names for submission to the BCPP Board.

- 3.14 The deadline for receipt of nominations (including a personal statement) is 25th June with the nominations being considered at the Joint Committee meeting on 10th June. The same timescales and ballot process apply to the positions of Chair and Vice Chair of the Joint Committee, the latter role currently being held by Cllr Ellis.
- 3.15 Members will wish to consider the arrangements they wish to put in place for determining how to cast the Authority's vote at the Joint Committee.
- 3.16 Since the last meeting of the Authority the following shareholder resolutions and other related documents have been agreed which relate to papers considered at previous meeting of the Authority
- Approval of the BCPP operating budget for 2018/19.
 - Appointment of KPMG as external auditors following a procurement process.
 - Subscription for £833,333 worth of B shares to provide regulatory capital to the business in line with the agreed business case.
- 3.17 The nature of these decisions indicates that the process of launching BCPP is nearing its completion and more and more of the final building blocks are being put into place.
- 3.18 An invoice for the remaining contribution to the set up costs of the company is expected in the coming days. This will be in line with the budgetary provision previously agreed.

SYPA Post Pooling Activity

- 3.19 Following the transfer of the first tranche of assets into the new pooling structures there are a number of tasks which SYPA as an organisation will need to consider in more detail with decisions coming to future Authority and Investment Board meetings as necessary over a period of time. The more significant issues to be considered include:
- Defining the relative responsibilities of the Authority and Investment Board going forward.
 - Developing appropriate forms of performance reporting to allow elected members to exercise their strategic responsibilities in relation to the Fund while also holding investment managers to account.
 - Reviewing and making changes to operational processes as the Fund moves over a period from being almost wholly internally managed to almost wholly externally managed.

- Adjusting the way in which officers and the Independent Advisers work together in order to both monitor the overall performance of the Fund in support of members and develop investment strategy.

Conclusion

3.20 Considerable progress continues to be made towards the launch of BCPP's first investment structures and the foundations for the Authority's post pooling arrangements have been put in place.

4) Implications and risks

- Financial – There are no additional financial implications outlined in this report. BCPP are in the process of drawing down both their regulatory capital and any remaining contributions to set up costs in line with the existing budgetary provision.
- Legal – The actions on the part of the Authority set out in this report are within its relevant powers and advice has been taken as necessary in considering the various agreements which the Authority has to enter into.
- Diversity – There are no immediate diversity implications.
- Risk – The pooling project appears in the corporate risk register and the measures outlined in this report are intended to reduce the Authority's overall risk exposure.

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