

Pension Fund Committee

8 December 2016

Investment Pooling Update



Report of Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 To update the Committee on progress towards investment pooling and to ask the Committee to agree on a recommendation on the ownership of the investment management company that will be created through pooling and on the membership of the Joint Committee that will supervise that company.

Background

- 2 At its 6 July 2016 meeting the Committee approved a detailed submission to Government on the proposed pooling of the investment of the Pension Fund's assets and confirmed the Pension Fund's previous commitment to be part of the Border to Coast Pensions Partnership (BCPP).
- 3 At the time of writing this report, the Government has not provided a formal written response to the BCPP pooling submission. However, the Department for Communities and Local Government (DCLG) has arranged to meet separately with representatives from each prospective asset pool, with BCPP's meeting scheduled for 24 November 2016. Formal written approval is expected to follow soon after this meeting.
- 4 The Government has indicated that despite the four month wait for approval the deadline for LGPS investment pools to be created and holding assets remains April 2018. Given the short time frame it is imperative that work progresses in a planned, focused way once Government approval has been given.

Creation of asset management company supervised by Joint Committee

- 5 BCPP will need to set up a separate Financial Conduct Authority (FCA) regulated asset management company, appoint staff (including through transfer from the three internally-managed Funds where appropriate) and develop the corporate and governance structures needed to enable the pooling of assets to take place from April 2018.
- 6 A Joint Committee overseeing the FCA- authorised investment management company is central to the BCPP proposal. The Joint Committee will comprise twelve individuals, one from each of the twelve BCPP partner funds. In

addition, the investment management company itself will be wholly owned by the administering authorities of all twelve partner funds.

- 7 As shareholders owning the investment management company, the administering authorities of the partner funds in the BCPP will exercise control over its operation including
 - the appointment and removal of directors, including non-executive directors
 - the approval of the annual business plan, budgets, the remuneration policy
 - the approval of capital requirements, any significant transactions (mergers and acquisitions)
 - review of risk register
- 8 As a member of the Joint Committee the Council, as Pension Fund administering authority, will ensure its interests as an investor are appropriately considered. The Joint Committee will exercise scrutiny over the investment performance of the BCPP investment management company and its sub-funds. It will also retain an advisory role over the functioning of the company. Its meetings will be governed by local government law and privacy determined accordingly. Voting will be by simple majority.
- 9 As administering authority, the Council will have to approve the acquisition of one share in the BCPP investment management company, and will have to authorise the BCPP Joint Committee to act as the supervisory body of the BCPP investment management company on behalf of the Durham County Council Pension Fund as a partner fund.
- 10 The Council will also have to agree which individual(s) should have membership of the BCPP Joint Committee and how the Council's shareholding of the BCPP investment management company will be exercised.

Recommendations

- 11 That a paper should be drafted for the County Council's January or February meeting asking the Council to approve its acquisition of a share in the BCPP investment management company and its membership of the Joint Committee supervising the BCPP investment management company.
- 12 The paper should recommend that the Chair of the Pension Fund Committee (or nominated representative) represents the Council on the BCPP Joint Committee, and exercises the Council's vote as joint owner of the BCPP investment management company.

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