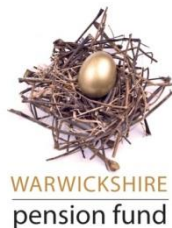
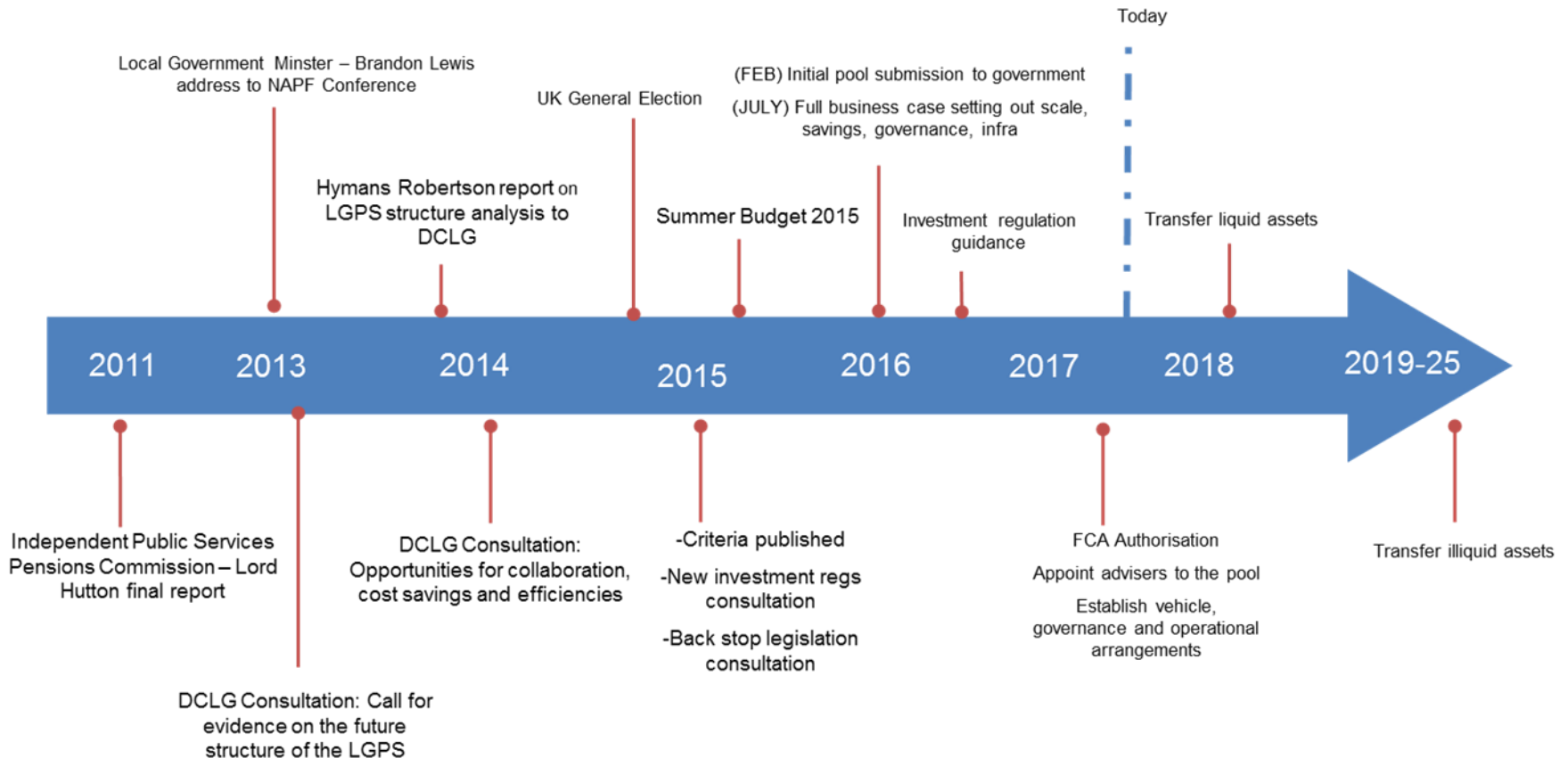


# The Warwickshire County Council Pension Fund



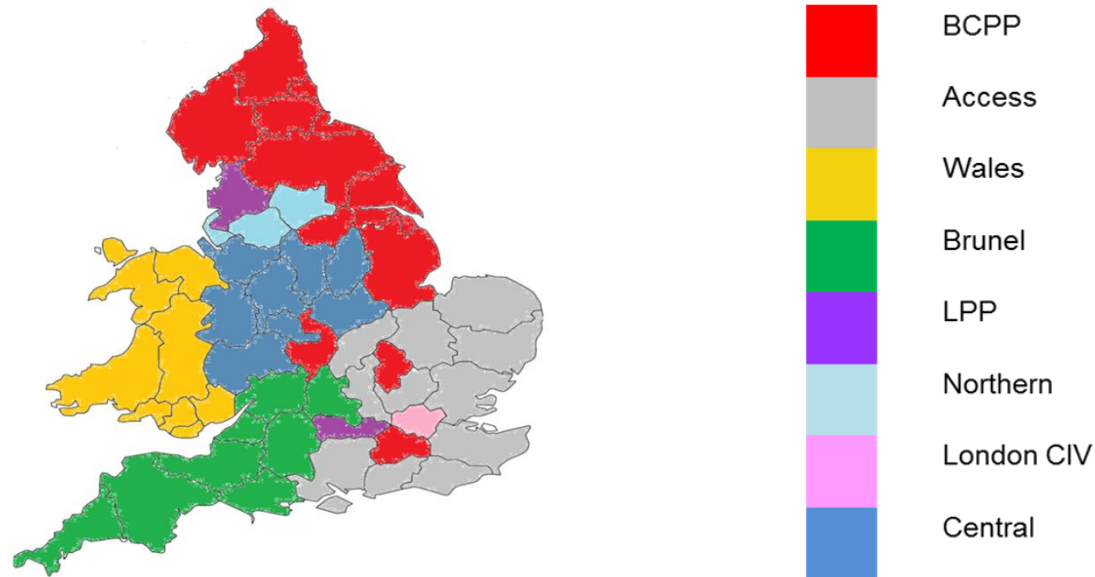
# Recap



# The Criteria

- Scale – “half a dozen” pools; >£25bn
- Strong governance & decision making
- Reduced costs & provision of excellent value
- Improved capacity & capability to invest in infrastructure

# How it ended up...





- FCA regulated asset manager
- 50 staff
- Shopping basket of funds
- Only have to buy the funds you like
- Have their own in-house products
- Based in Leeds

# BCPP – The Funds

- Bedfordshire (£2.1bn)
- Cumbria (£2.4bn)
- Durham (£2.7bn)
- East Riding (£4.5bn)
- Lincolnshire (£2.1bn)
- North Yorkshire (£3.0bn)
- Northumberland (£1.3bn)
- South Yorkshire (£7.6bn)
- Surrey (£3.8bn)
- Teesside (£3.9bn)
- Tyne and Wear (£7.9bn)
- Warwickshire (£2.0bn)

**TOTAL £43.3bn**

**Representing:  
Over 900,000 members  
Over 2000 employers**

**Basic Principle;  
One Fund One Vote**

# Where we want to get to

## Goal

Increased scale and resources will lead to improvements in net of costs performance

## Balance

Funds need for choice in implementing strategy

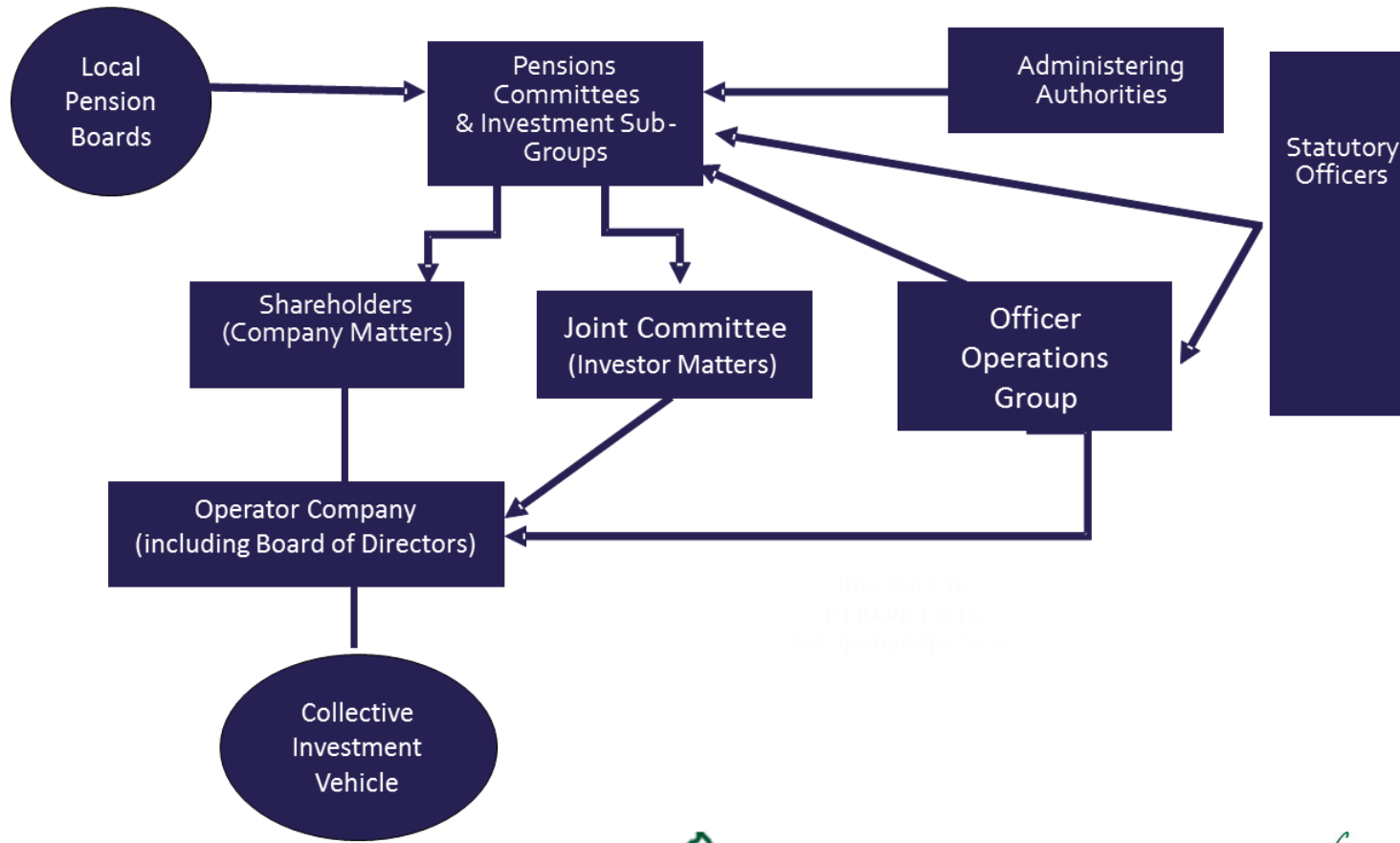
Pools need scale to drive down costs and to increase resource and resilience and therefore, improve efficiency

# Project Team (until it's set up)

- Project Lead – Ian Bainbridge – Tyne and Wear
- Project Manager – Steve Halford - Cumbria
- Governance
  - David Hayward – Tyne and Wear
- People
  - Ian Bainbridge – Tyne and Wear (Executive Recruitment)
  - Clare Gorman – Northumberland (Executive Recruitment)
  - Nick Orton – Durham
- Operating Model
  - Mark Lyon – East Riding
  - Tom Morrison – Tyne and Wear



# The Structure



# Key People

- Executive Search
  - Non Exec Chair recruited – Chris Hitchen (was Railpen)
  - CEO – Rachel Elwell (was Royal London)
  - 2 x Non Executive directors – Tanya Castell, Enid Rowlands
  - Other senior executives –
    - Chief Operating Officer – Fiona Miller
    - Chief Investment Officer
    - Chief Risk Officer
- Draft staffing structure under consideration
- TUPE discussions ongoing (not Warwickshire)
- Pension arrangements including guarantee to be determined
- Shortlist of two office locations

# Governance

- Formal agreement by Administering Authorities
- Established the Joint Committee
- Established the operating company
- Established legal agreements and shareholder reserved matters
- Working on arrangements to hold BCPP to account
- Developing business plan and operating budget

# Operating Model

- External Advisors have been appointed
  - Alpha FMC – Operating, FCA Requirements, Depositary
  - Eversheds – Legal Advice
  - Deloitte – Accounting and Tax Advice
- FCA application pack is being compiled
- Transition timeline developed
- Tender for Third Party Advisor (Depositary and Custodian)
- Tender for IT Requirements
- Development of Sub Funds, with Investment Objectives

# Pension Fund Investment Sub-Committee

## **What Changes?**

- Monitoring of Managers
- More focus on tactical and strategy issues
- Focus on monitoring investments at BCPP
- Focus on monitoring BCPP

## **What can we do about this?**

- Maintain close contact with BCPP
- Require presentations to the Panel from BCPP

## **What stays the same?**

- Monitoring role on investment strategy
- Monitoring of investment performance
- Recommend changes to investment strategy or structure

# Indicative Timeline

## BCPP Operational

1<sup>st</sup> June 2018

- UK Equities/Global Equities 1<sup>st</sup> September 2018  
1<sup>st</sup> March 2019
- Private Equity 1<sup>st</sup> June 2018
- Infrastructure 1<sup>st</sup> September 2018
- Multi Asset Credit 1<sup>st</sup> March 2019
- Other Alternatives 1<sup>st</sup> September 2019
- UK Property 1<sup>st</sup> March 2020

# Equity Managers

## **What Changes?**

- Appointment of Investment Manager and style
- Termination of Investment Manager
- Day to Day contact with Investment Manager
- Agreement of fees
- Investment into sub funds rather than directly with managers
- Absolute discretion on investment risk and return

## **What can we do about this?**

- We monitor BCPP
- Influence BCPP on sub fund design and investment risk and return parameters

## **What stays the same?**

- Direct relationship with passive manager (for now)

# Alternative Investments

## What Changes?

- Ability to hire and fire managers
- More focus on strategy issues
- New responsibility to monitor BCPP

## What can we do about this?

- Maintain close contact with BCPP and partner funds in BCPP
- Presentations to Pension Fund Investment Sub-Committee by BCPP
- Maintain contact with some managers through presentations to Committee or through training

## What stays the same?

- Responsibility for Governance and Administration of the Fund
- Responsibility for setting investment strategy and funding strategy
- Responsible for Responsible Investment Policy and Voting
- The responsibility for performance of the assets



# Questions?

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Treasury and Pension Fund Manager  
Treasury and Pensions  
Resources Directorate  
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Email: [mathewdawson@warwickshire.gov.uk](mailto:mathewdawson@warwickshire.gov.uk)  
[www.warwickshire.gov.uk](http://www.warwickshire.gov.uk)



*Working for  
Warwickshire*

Now for a change of...



**MIFID II and its implications**

# What is it?

“The Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to ‘financial instruments’ (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.”

# Brief History

- MiFID I came into force in November 2007. Brought in legislation for regulation of investment services within the European Economic Area
- Due to increasing complexity of financial products, and issues from the 2008 financial crisis, a review of the Directive was instigated
- Result -MiFID II -which is due to come into force from January 2018 (previously targeting January 2017).

# The Details

- Changes in market structure, including:
  - New systems and controls
- Transparency of reporting
  - Greater equity market transparency and new transparency requirements for fixed income and derivatives
- Scope and supervision
  - Structured deposits will be within scope
  - New powers to ban products/services
- Attempt to improve access to EU markets from non-EU countries
- **Client categorisation**

# Why is it important to us?

Under MIFID II, on 3 January 2018, asset managers would automatically classify our fund as a retail investor unless we “opt up” as professional investors. Being classified retail would mean:

- Less choice of product/asset class
- Less choice of asset manager
- Unfavourable fee rates
- No marketing
- No client relationship

More crucial than any of the above however is the fact that some managers that already have our assets would be unable to manage it for us and would have to consider giving us our money back.

# What did we do about it?

- Got permission from the Pension Fund Investment Sub-Committee to opt up with the funds asset managers/advisor/consultant
  - Gathered a bank of evidence that demonstrates we have the right governance, experience, expertise, knowledge and support to be classified a professional investor. There are quantitative and qualitative tests to fulfill.
- Responded by the end of September in-line with the Government timetable
- To date we have confirmations from three managers that we meet the criteria to be opted up
  - Will be an ongoing process

# MIFID II and pooling

- BCPP will be an FCA registered asset manager and be bound by the same rules as other fund managers
- BCPP will be classified as a Collective Portfolio Management Investment firm (CPMI), as it will also be an advisor
- Each member fund will opt up as a professional investor with BCPP



# It's quite good for individuals though....

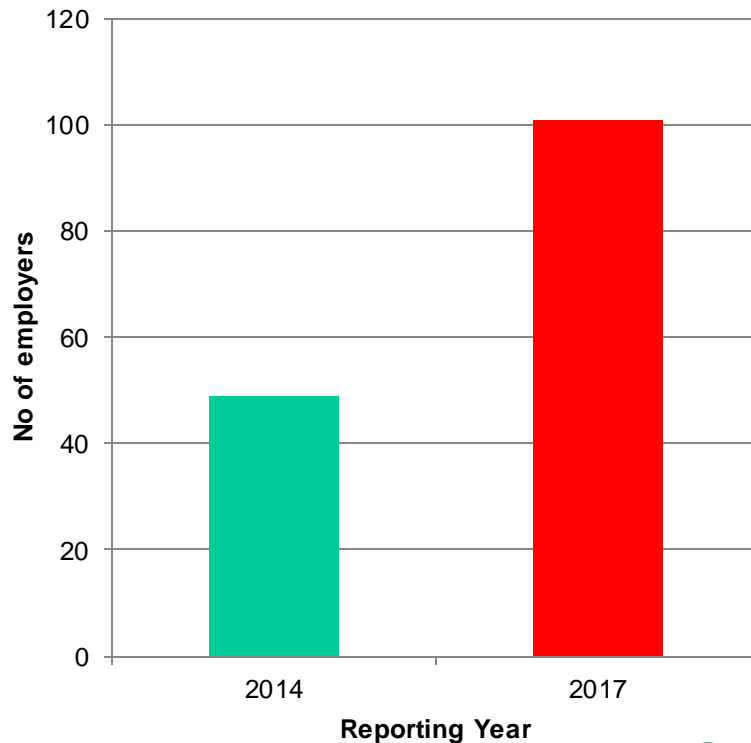
- IFA's can't get paid by third parties anymore
- More controls to safeguard your money
- More information on product risk and who it's appropriate for
- Power to restrict or ban products
- More disclosure on costs and charges

**Greatly reduces the chances of you or your family being mis-sold something**



# FRS102/IAS19 Exercise

## Growth in employers



- **100+% growth since 2014 exercise**
- **New employers/Academies/MAT's**
- **Only set to increase further**
- **Tighter deadlines/timescales/resource**

# New way forward.....

- Pension Fund to submit data on behalf of employers
- Using CT117 data (accurate & timely returns key)
- Beginning for March 2018 exercise
- Removes burden from employer
- Eliminates chasing of returns/breaches of deadlines
- Pre-submission checks done by the fund
- Reports more likely to be issued in line with employer audit requirements.