



ACCESS

Effective • Collective • Investment

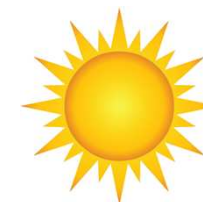
LGPS Pooling Presentation

31st July 2017

What we will cover

- What is investment pooling?
- Why are we having to do it?
- What is the ACCESS investment pool?
- How will it affect Administering Authorities?
- What happens next?

2015 Summer budget



2015

Local Government Pension Scheme pooled investments
“The government will work with Local Government Pension Scheme administering authorities to ensure that they **pool investments to significantly reduce costs, while maintaining overall investment performance.**

The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings.

A **consultation** to be published later this year will set out those detailed criteria as well as **backstop legislation** which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments”.



2015 Autumn Statement



*“up to 6 British Wealth Funds ...
at least £25 billion of Scheme assets each”*

*“reduce costs while maintaining overall investment
performance”*

*“wider ambition of matching the infrastructure
investment levels of the top global pension funds”*

2015 Autumn Statement

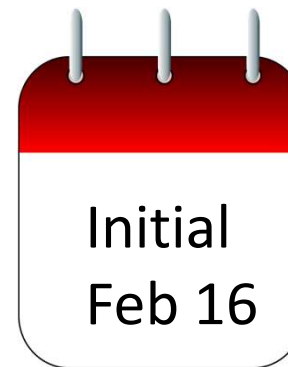


Criteria

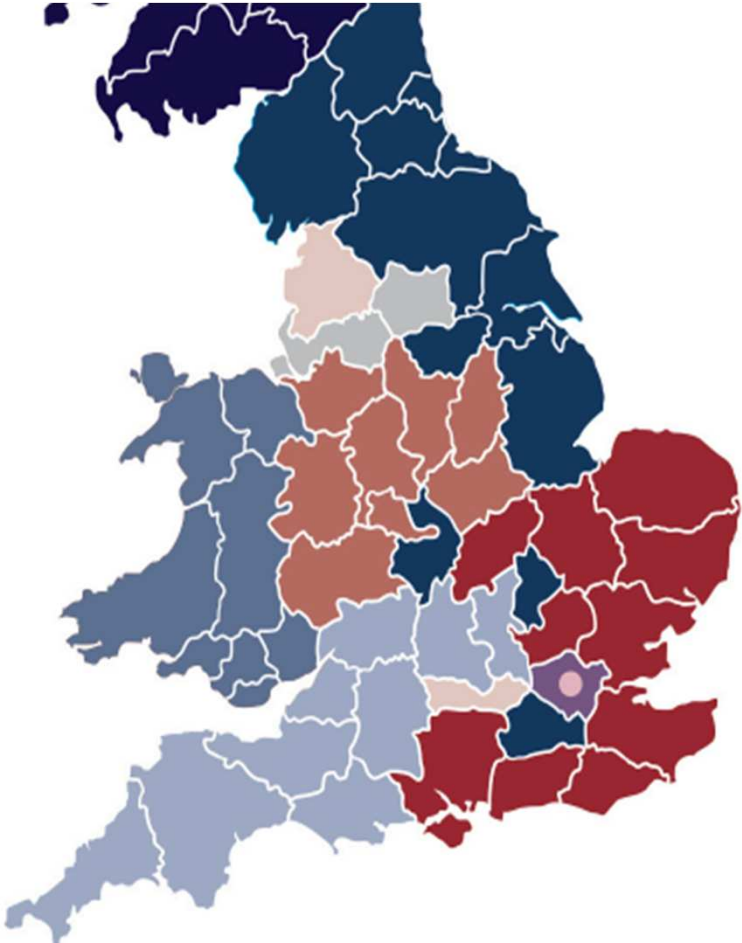
- Scale
- Fee savings
- Governance
- Infrastructure



Pooling proposals to government



LGPS Pooling profile



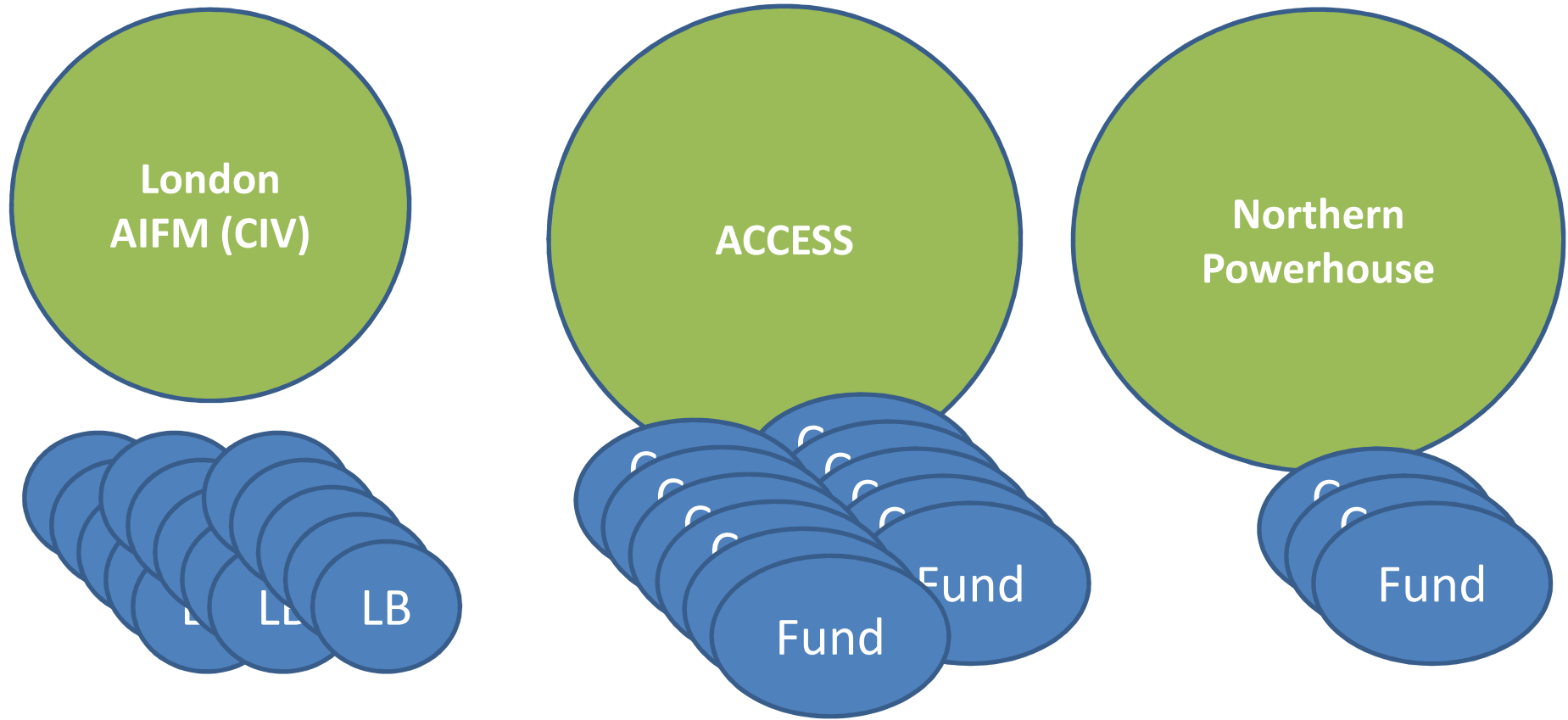
- Access
- Central
- Border to Coast
- Welsh CIV
- Brunel
- London CIV
- Northern Pool
- Local Pensions Partnership



8 pools approved

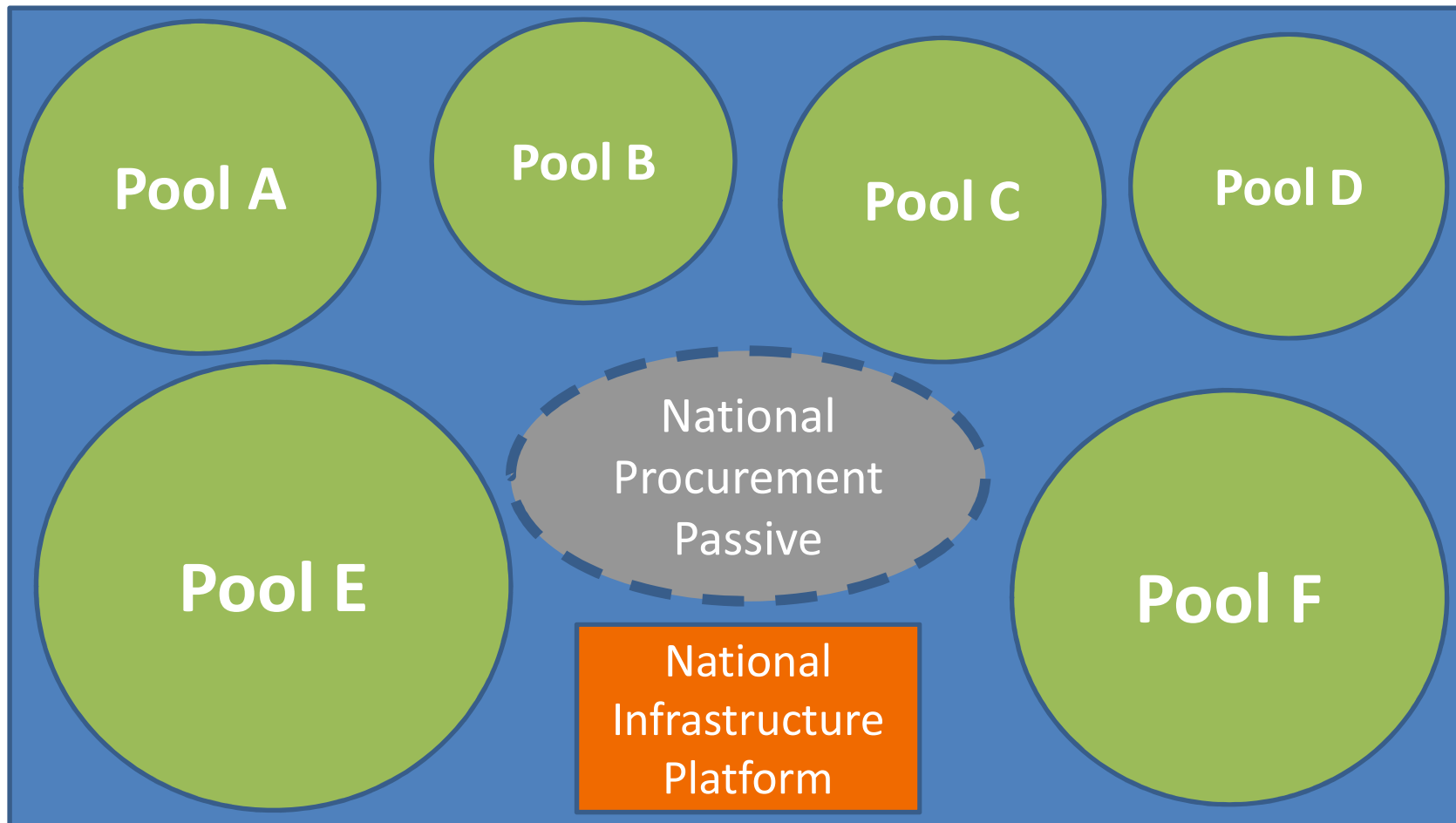
Pool	Current est size	In-house mgt team
London CIV	£24bn+	No
Northern Powerhouse	£35bn+	Yes
Central	£36bn+	Yes
ACCESS	£29bn+	No
Brunel (South West)	£24bn+	No
Borders to Coast	£34bn+	Yes
Wales	£15bn+	No
LPP	£12bn+	Yes

What is investment pooling?



Each LGPS fund remains separate. Retain responsibility for asset allocation decisions, local liabilities, contribution setting, administration. Scale benefits: lower investment manager fees across the LGPS.

Multi-Asset Pools (MAPs)



MAPs plus small number of vehicles for asset types accessed more efficiently by LGPS wide collaboration & scale. Those vehicles accessible to all pools.



2016

ACCESS (a collaboration of central, eastern and southern shires) with assets of £34bn – **all of which are managed by third parties.**

c3,000 employers

c900,000 members

Strong performing funds and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise.

75% of the assets are invested across 12 managers and 71 different managers used across the authorities.



Essex County Council



Hampshire County Council



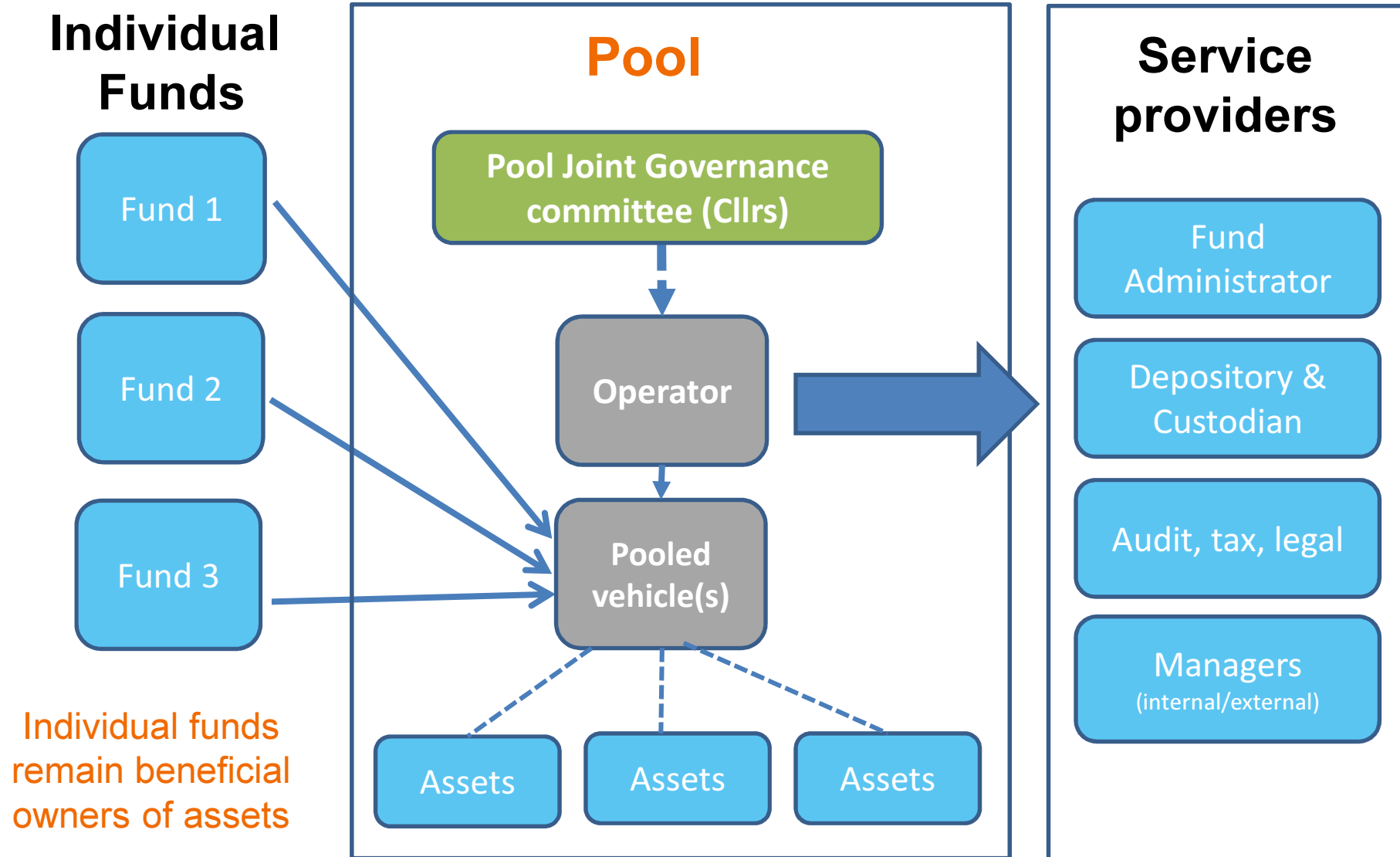


Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

Collective Investment Vehicle



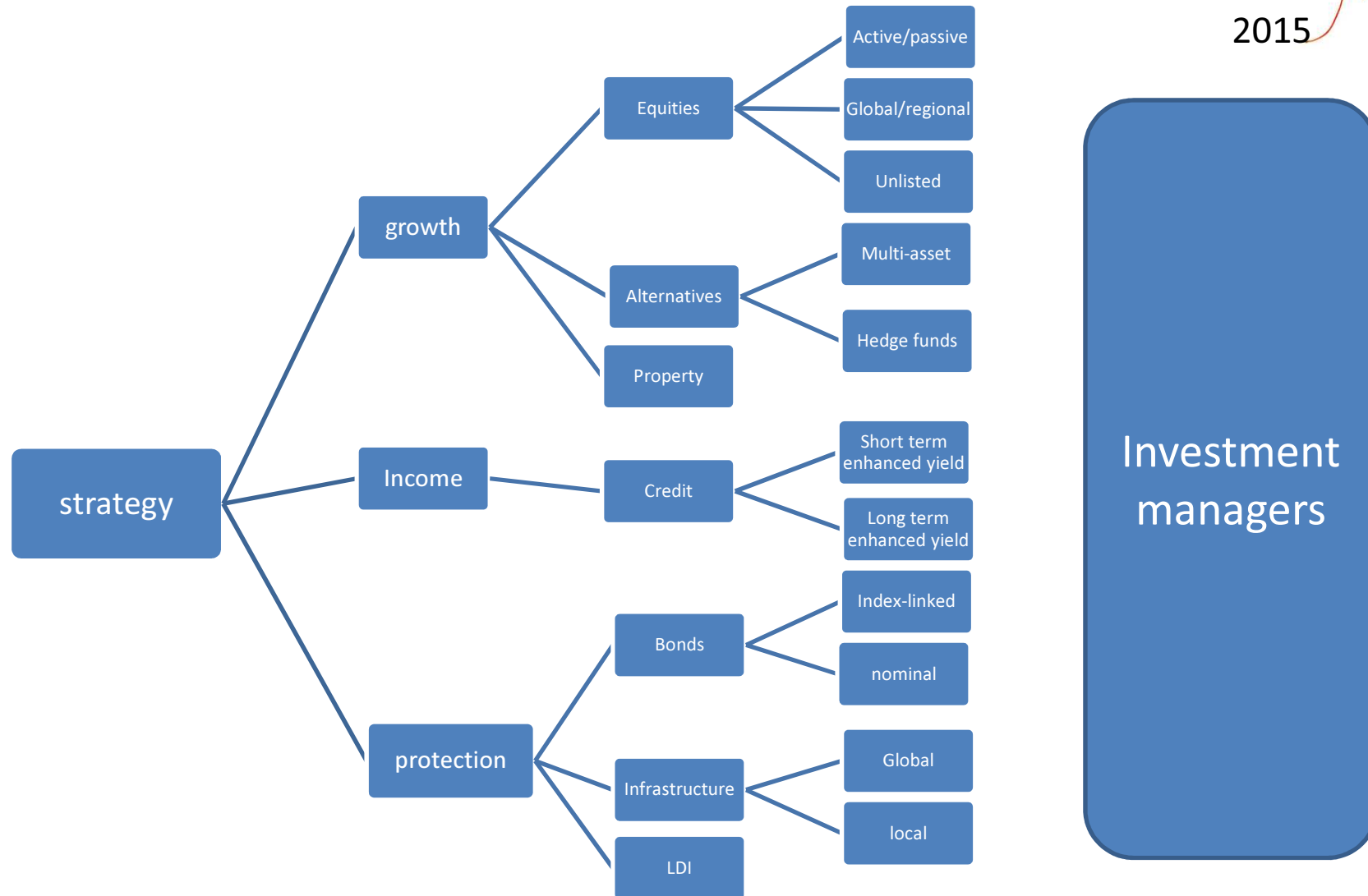
2016



Governance and decision making



2015

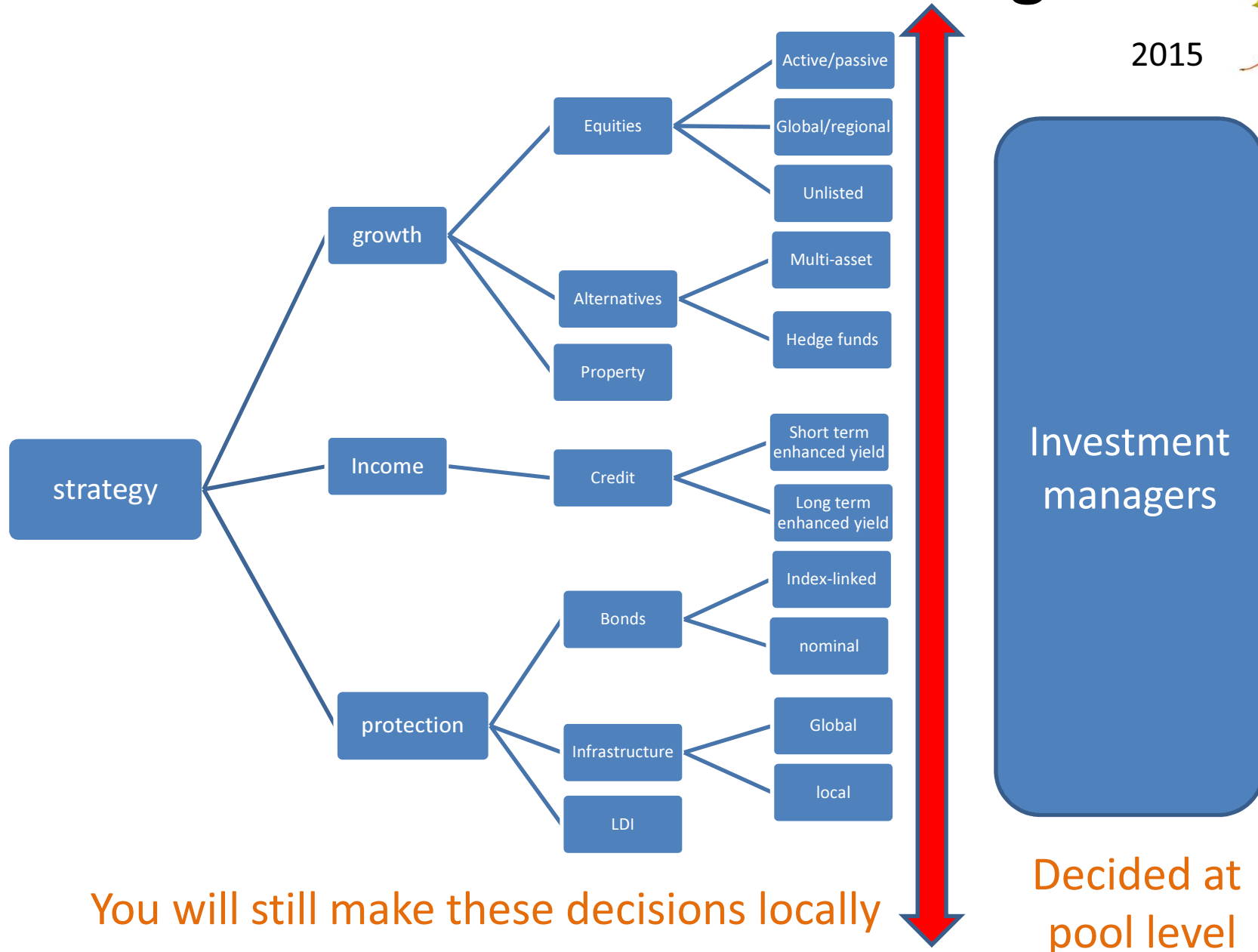


Currently all of these decisions are made by you

Where does local decision-making end?



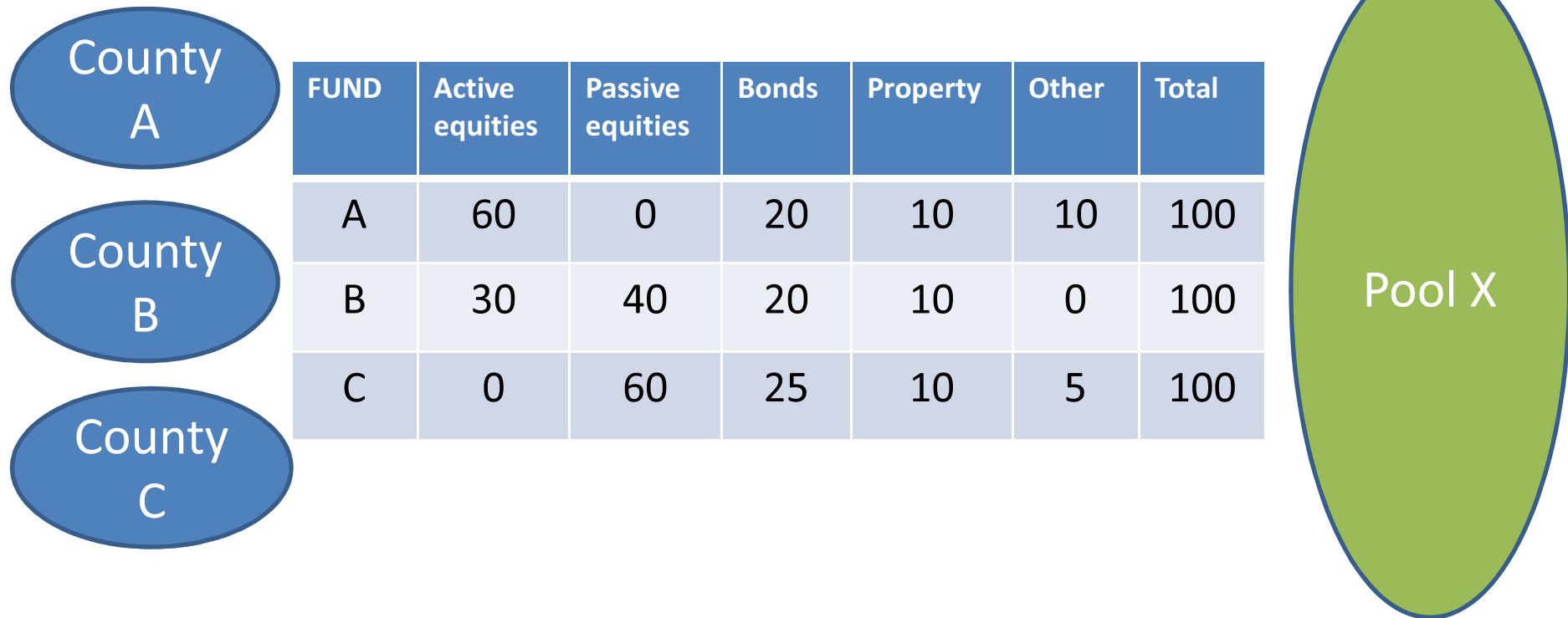
2015



You will still make these decisions locally

Decided at pool level

Pooling: who makes decisions



FUND	Active equities	Passive equities	Bonds	Property	Other	Total
A	60	0	20	10	10	100
B	30	40	20	10	0	100
C	0	60	25	10	5	100

County A

County B

County C

Pool X

Each separate fund in the same asset pool makes asset allocation decisions locally

Governance & decision making



2016

Pension Fund Committees	<ul style="list-style-type: none">• Set asset allocation• Contractual rights through sponsorship or shareholder agreement with operator• Hold pool to account via representation on Joint Governance Committee• Receive quarterly reports on operator and pool investment performance
Joint Committee (Elected Members)	<ul style="list-style-type: none">• One representative from each participating fund• Responsible for ensuring the pooling arrangements deliver value for money• Responsible for the appointment and termination of the Operator• Ensures that pool meets the needs of individual funds e.g. decisions on sub-funds the operator will be required to provide to support individual fund strategies• Set pool level policies e.g. sharing of costs• Receive quarterly reports on Operator performance against agreed KPIs• Receive quarterly reports on investment performance

Governance & decision making (contd)



2016

Operating Group (Officers)

- One officer representative from each participating fund
- Monitor performance of investment portfolios, Operator and 3rd party contractors
- Provides information and advice to the Elected Member Joint Governance Committee on value for money of operations

Client Function

“Intelligent client” of the Operator

Core responsibilities:

- Technical investment advice to Operating Group and Joint Committee
- Secretarial support to the Operating Group and Joint Committee
- Contract management with CIS Operator
- Day to day facilitation and liaison, negotiation
- Interpretation
- Benchmarking costs/VFM

Governance & decision making (contd)



2016

CIS

Operator

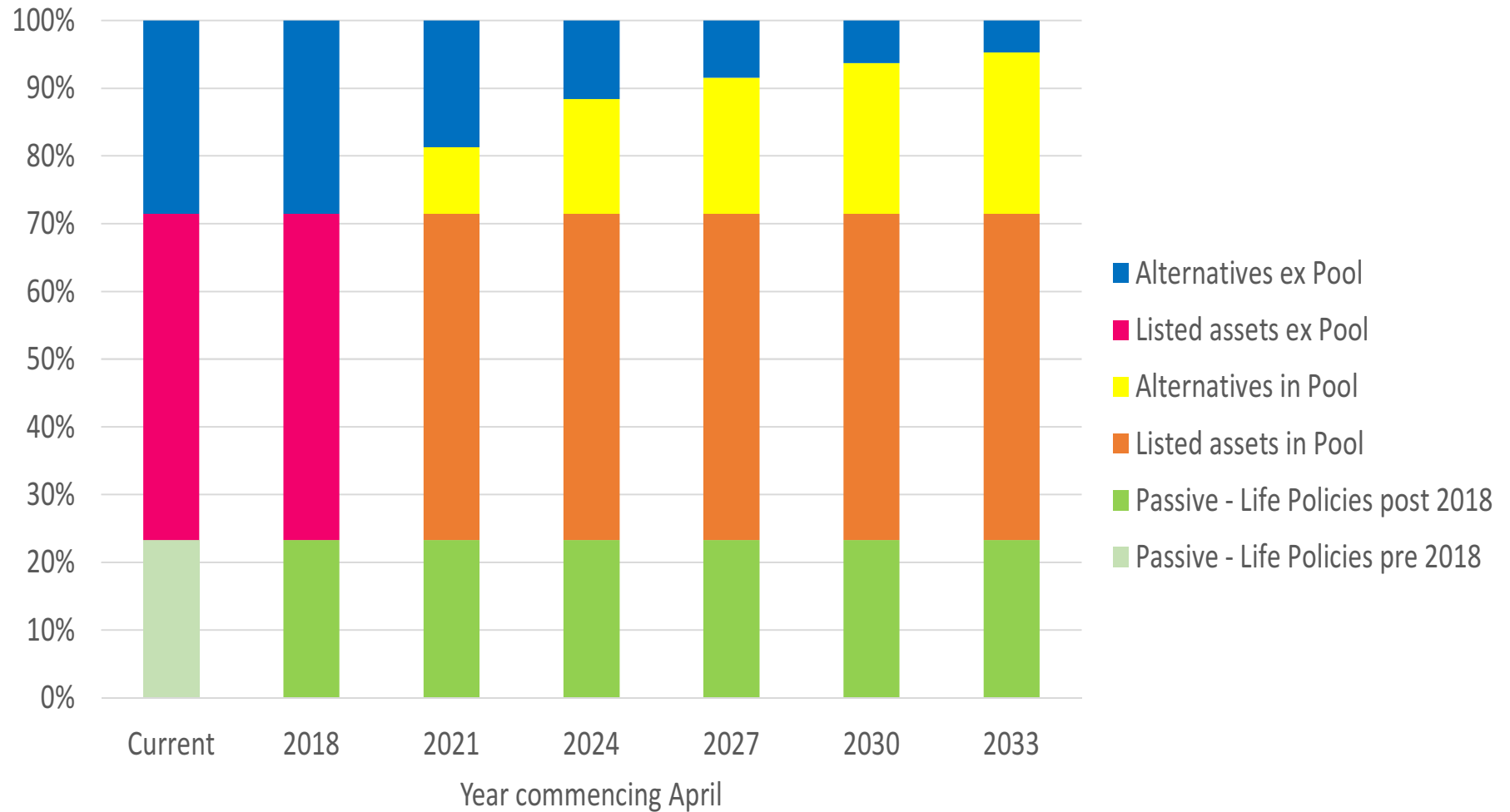
Responsible for:

- Legal and regulatory responsibility for selecting & contracting with investment managers via fully compliant procurement. (Consult with officers and Chairmen / JGC as investors.)
- Establishing and operating pooling vehicles e.g. ACS
- Responsible for due diligence on 3rd party suppliers (eg investment managers), compliance & risk management, sourcing tax and legal advice as appropriate, reporting performance to ACCESS funds, regulatory compliance
- Administration of underlying investments including dealing, valuations, determination of unit price, portfolio accounting, record keeping & client reporting

Timeline to 2033



2016



Note: Some investments remain outside the pool e.g. direct investment in property.

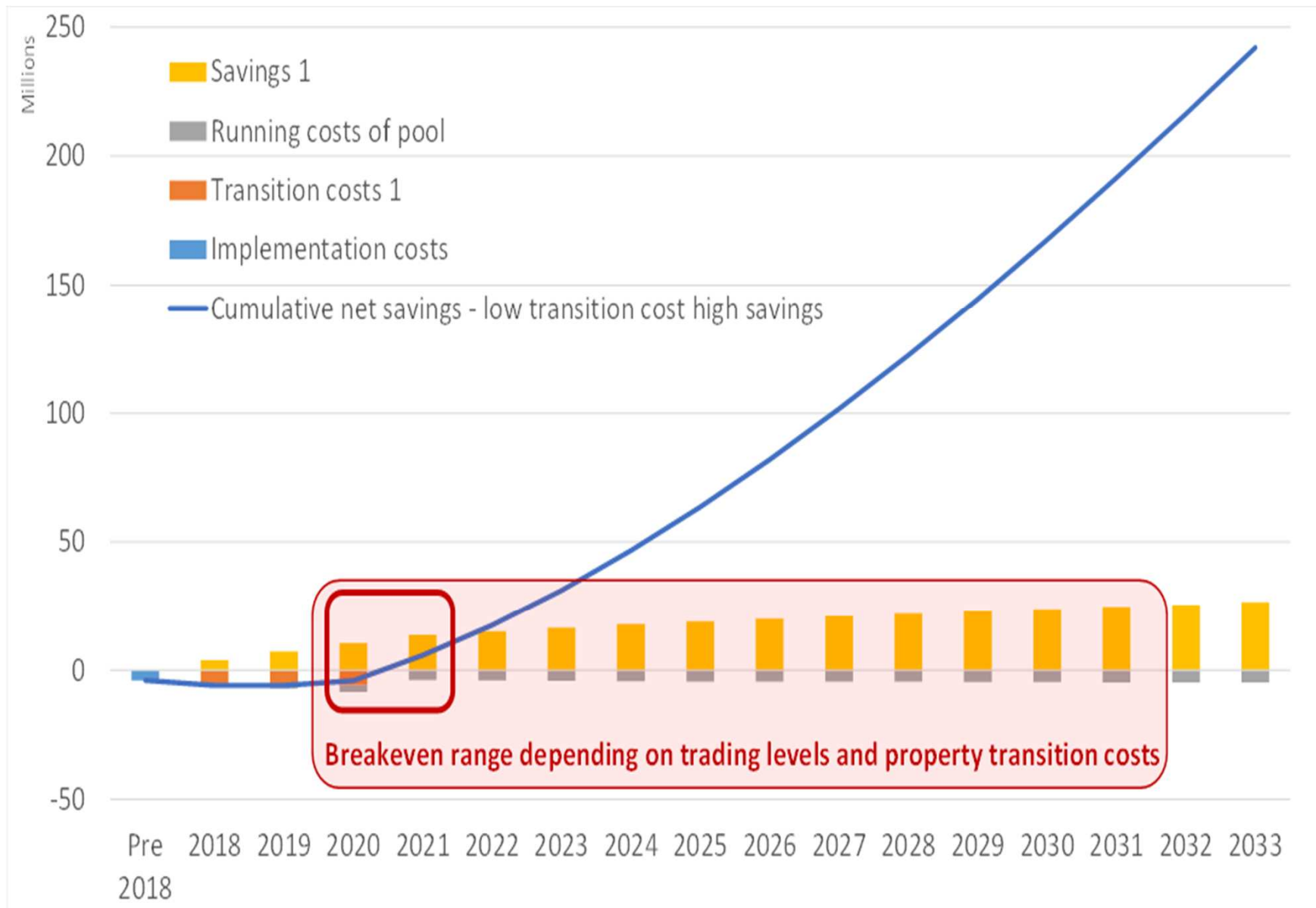
Cost–Benefit Analysis



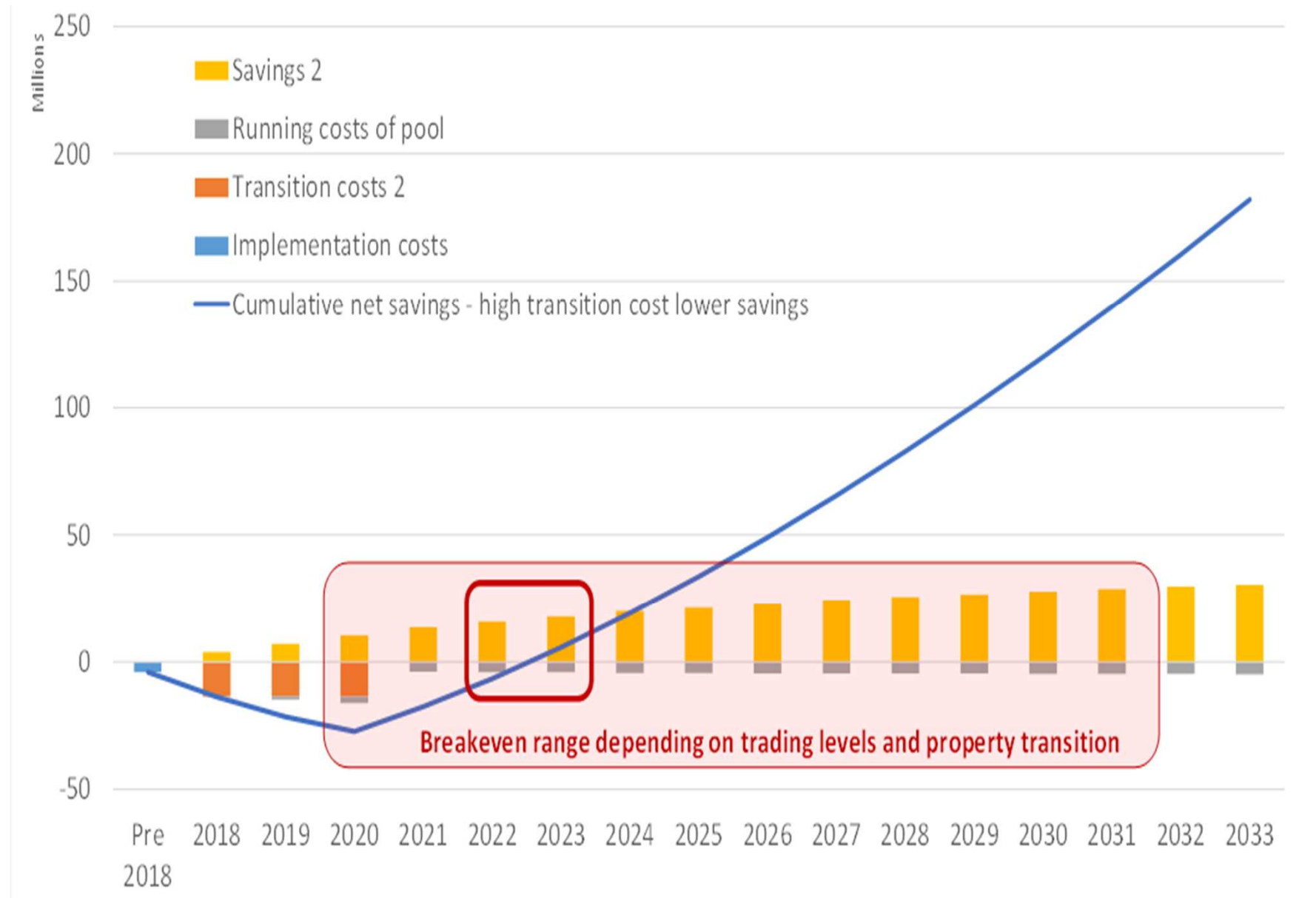
2016

Cost	Type	£	Occurrence
Implementation costs (rent CIV)	One off	£1m - £2m	2017-2018
Transition costs (excl.market impact)	One off	£17m - £41m	2018-2021
Running costs	Ongoing	£3m - £5m	2018 +
Savings	Type	£	Occurrence
Investment Fee savings	Early years	£13m	2021
Investment Fee savings	In 15 years	£26m - £30m	2033

Time to break even



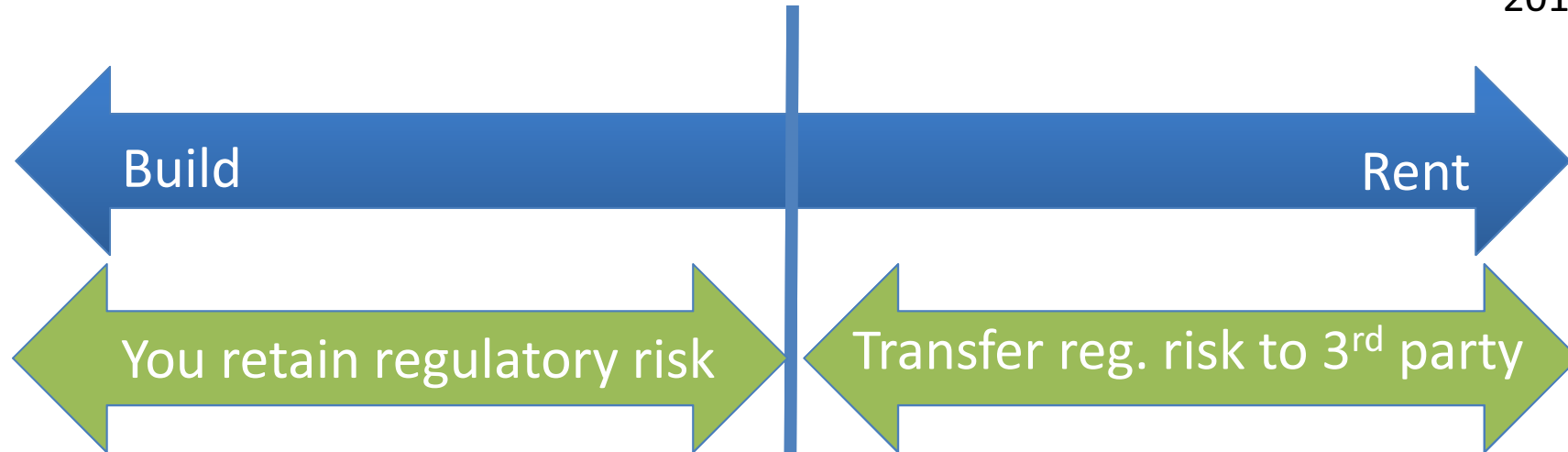
Time to break even (pessimistic)



Build v Rent Pool Operator



2016

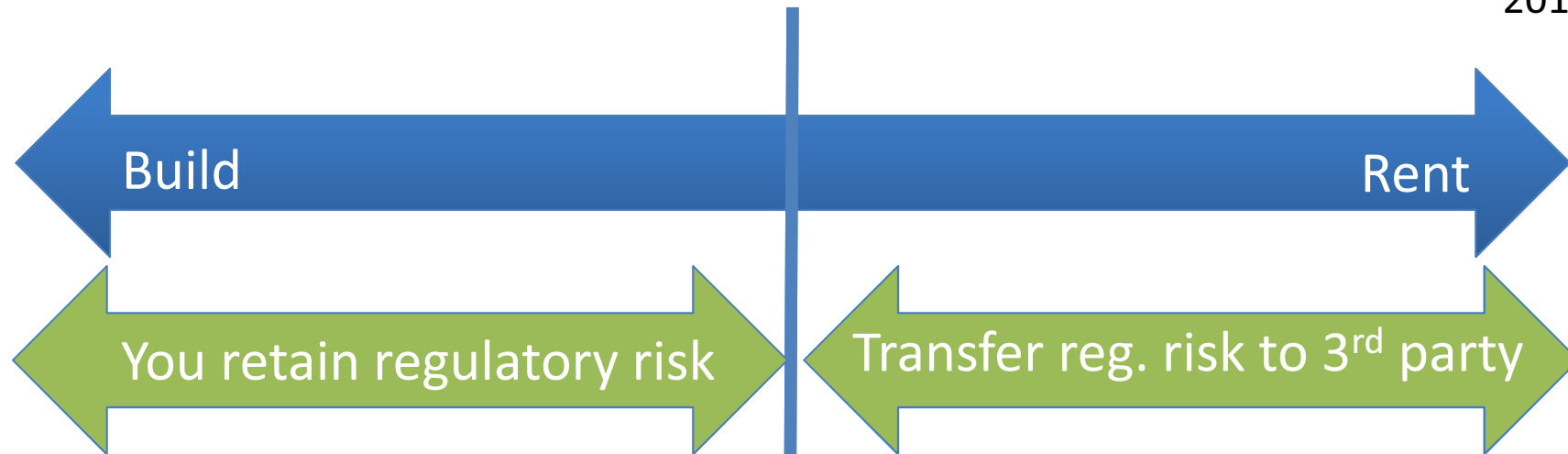


Build max	Build "light"	Rent "light"	Rent max
No outsource apart from depositary/custody. Manage some or all money with "in-house" team.	Minimum staff on payroll. Outsource as much as possible. Use external investment managers.	Operator consults on investment manager selection. Funds retain investment strategy decisions.	Administering authorities have a hands off role. Manager choices & asset allocation fully delegated to Operator

Decision: rent initially



2016



Build max	Build "light"	Rent "light"	Rent max
No outsource apart from depositary/custody. Manage some or all money with "in-house" team.	Minimum staff on payroll. Outsource as much as possible. Use external investment managers.	Operator consults on investment manager picks. Funds retain investment strategy decisions.	Administering authorities have a hands off role. Manager choices & asset allocation fully delegated to Operator





Collaborative	Risk management	Objective evidence based decisions
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2016

Rent CIV

- Progress Operator Procurement
- Progress Legal Procurement
- Draft IAA

Collaborative Joint Procurement

- Fund correspondence
- November: meeting with Minister
- December: Business case to Minister

27 January: Minister's letter to ACCESS



2017

Para 4

I consider that the joint procurement proposal will not deliver the Government's objectives as set out above, although I recognise that it would have lower implementation and running costs.

Some reductions in investment fees have already been achieved as the result of our drive to establish pooling in the LGPS...However, to deliver and maintain the substantial savings I expect over the long term, large asset pools are required with effective delegation of manager selection."



23 February: ACCESS letter to minister



2017

“...Although we are disappointed in your decision, we will therefore proceed with...pooling as you have directed, following the approach set out in our July 2016 submission using a rented model....

...given the significant tax payer expenditure required to implement govt policy in the way you have directed, it is essential that there is a **clear and accurate record of the rationale for the government’s decision...**

...for the avoidance of doubt, it is important that you provide a clear statement as to what government pooling policy now requires.”



2017

22 March: Minister's letter

Para 2

“The guidance and criteria for pooling did not mandate a Financial Conduct Authority (FCA) authorised pool operator and collective investment vehicle, but as a minimum I expect to see a single entity at the heart of the pool, appropriately regulated by the FCA.

*The precise regulatory position and tax treatment will be for the FCA and HMRC to decide. However, **establishing a well-known existing structure such as an FCA regulated operator and collective investment vehicle** minimises regulatory and tax risks and **provides the greatest assurance to authorities, scheme members and local taxpayers**”.*



22 March: Minister's letter



2017

Para 4

“ I consider that your alternative proposal will not deliver the Government’s objectives, as set out above, although I recognise that it would have lower implementation and running costs.

*...I therefore cannot accept your alternative proposal. I **expect you to proceed as set out in your final proposal submitted in July [2016], based on an FCA authorised collective investment vehicle”.***



Current Timetable

	Governance	Passive Work-stream	Procurement Work-stream	Sub-fund design*
July 2017	<ul style="list-style-type: none"> IAA signed/sealed by all authorities First formal Joint Committee meeting 	<ul style="list-style-type: none"> Evaluation concludes and supplier appointed to framework 	<ul style="list-style-type: none"> First draft of ITT documents completed Individual authorities review ITT documents 	<ul style="list-style-type: none"> Tender for and appoint advisor Data gathering and analysis
Aug 2017	<ul style="list-style-type: none"> Ongoing work on role definition for "client team" 		<ul style="list-style-type: none"> Update ITT documents in response to review ITT finalised & signed off 	<ul style="list-style-type: none"> Report received Reviewed by officers
Sept 2017	<ul style="list-style-type: none"> Agree "client team" proposal Appoint JC Chairman First formal Joint Committee meeting 	<ul style="list-style-type: none"> Outcome ratified by Joint Committee and individual authorities Passive framework contract awarded 	<ul style="list-style-type: none"> Issue OJEU notice & ITT 	<ul style="list-style-type: none"> Report findings shared with bidders as part of tender process
Oct 2017			<ul style="list-style-type: none"> Deadline for ITT responses Evaluation commences 	
Nov 2017			<ul style="list-style-type: none"> Evaluation concludes Individual authorities agree to sign operator agreement 	
Dec 2017	<ul style="list-style-type: none"> Client team appointed and operational when contract is awarded 		<ul style="list-style-type: none"> Notification of award, pre-award meeting & contract signed 	
Jan 2018		<ul style="list-style-type: none"> Individual authorities to commit to framework by March 2018 £10bn expected to be under pool governance by March 2018 	<ul style="list-style-type: none"> Application to FCA for ACS & initial sub-funds 	

*It has been decided to carry out this analysis before the ITT is issued to give greater clarity to bidders on number and type of sub-funds to be established and supported

Any questions ?

