



Local Government Pension Scheme pooling: progress report

Progress report from

ACCESS

(A Collaboration of Central, Eastern & Southern Shires)

On behalf of



Cambridgeshire County Council



East Sussex County Council



Essex County Council



Hampshire County Council



Hertfordshire County Council



Isle of Wight Council



Kent County Council



Norfolk County Council



Northamptonshire County Council



Suffolk County Council



West Sussex County Council

ACCESS Pool objectives and principles

Participating authorities have a clear set of objectives and principles, set out below, that will drive the decision-making and allow participating authorities to help shape the design of the Pool.

Objectives

- 1 Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
- 2 Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
- 3 Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

In order to achieve these objectives, the participating authorities have established the following governing principles:

Principles

- The participating authorities will work collaboratively.
- Participating authorities will have an equitable voice in governance.
- Decision-making will be objective and evidence based.
- The Pool will use professional resources as appropriate.
- The risk management processes will be appropriate to the Pool's scale, recognising it as one of the biggest Pools of pension assets in the UK.
- The Pool will avoid unnecessary complexity.
- The Pool will evolve its approach to meet changing needs and objectives.
- The Pool will welcome innovation.
- The Pool will be established and run economically, applying value for money considerations.
- The Pool's costs will be shared equitably.
- The Pool is committed to collaboration with other Pools where there is potential to maximise benefits and minimise risk.

Criterion A: Scale

Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate

Within the July Submission the ACCESS Pool set out the value of assets of the authorities represented by the Pool based on asset values as at 31.3.2016. These totalled £33.5b as set out in the table below.

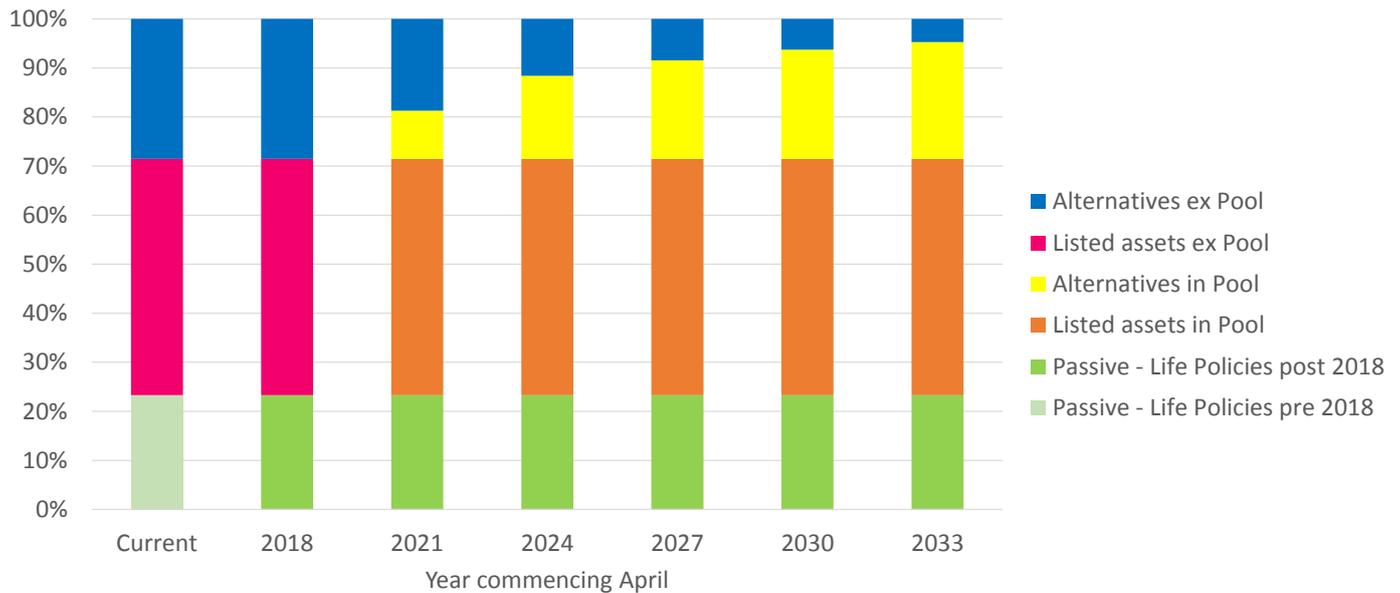
| Authority | £b |
|---------------------------------|-------------|
| Cambridgeshire County Council | 2.3 |
| East Sussex County Council | 2.7 |
| Essex County Council | 4.9 |
| Hampshire County Council | 5.1 |
| Hertfordshire County Council | 3.5 |
| Isle of Wight Council | 0.5 |
| Kent County Council | 4.5 |
| Norfolk County Council | 2.9 |
| Northamptonshire County Council | 1.9 |
| Suffolk County Council | 2.2 |
| West Sussex County Council | 3.0 |
| Total | 33.5 |

As stated in the July submission the total value of assets to be held within the Pool, once the transition is complete, will be around £31.8b. This assumes that, passive assets currently held in Life Policies will be considered to be within the Pool, although the Life Policies will remain an agreement between the participating authority and the appointed external investment manager(s).

As at 31.12.2016 the asset value of the ACCESS funds is now £37.8b¹. There has been no change to the planned transition of the majority of these assets into the Pool and the timeline for doing so. This remains in line with the indicative timeline of the July submission as per the chart and table below. The assumptions underlying this are:

- Existing illiquid assets will be run off over their normal investment lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned
- 100% of listed assets are intended to be invested through the Pool by 2021
- All passive assets will be held out-with the pool but with Pool terms having been negotiated and implemented prior to April 2018 through a call off from the new national passive framework
- A pool solution for alternative assets is intended to be developed by 2021 to allow new commitments to be made to ACCESS investment solutions

¹ This figure is inclusive of all Funds except for Isle of Wight whose figures remain as they were for 31.03.2016.



| Date (by) | Assets within the Pool (£b) |
|------------|-----------------------------|
| 31/03/2021 | £27.2 |
| 31/03/2024 | £29.5 |
| 31/03/2027 | £30.6 |
| 31/03/2030 | £31.3 |
| 31/03/2033 | £31.8 |

Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds

The table on the following page sets out the assets that the participating authorities intend to hold permanently outside the Pool as per the July submission. There has been no change to the proposed assets to be held outside although the values will have increased from those stated in the table due to market movements.

| Outside of Pool | Current Value (£m) |
|------------------|--------------------------------|
| Direct property | 1,600 (4.8% of Pool assets) |
| Local investment | 17 (0% of Pool assets) |
| Operational cash | TBC |

Progress towards go live by April 2018

- **please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorisation**

| | Timeline |
|--|-----------------------|
| Formulate a detailed implementation plan | July 2016 |
| Assessment of rent or build options | June-August 2016 |
| Recommendation and Chairmen's decision on rent or build option <i>Chairmen agreed in principle on 2 September 2016, decision ratified by all Councils 8 November 2016</i> | 2 September 2016 |
| Government agreement of ACCESS proposal Letter received from Minister 22 March 2017 | March 2017 |
| Commence procurement of the Operator | October 2016 |
| Issue Operator PIN for supplier engagement days | 29 October 2016 |
| Supplier engagement days | 20&21 December 2016 |
| Agreed core regulatory services would form basis of Operator specification. Kent County Council will be Lead Authority on procurement | 25 January 2016 |
| Assessment of procurement approach and development of procurement documentation | February-April 2017 |
| Decision on procurement approach and agreement of specification | End April 2017 |
| Issue of OJEU Notice / Tender documentation | May 2017 |
| Closing date and time for tender submissions | June 2017 |
| Evaluation of tender submissions | June-August 2017 |
| Decision and recommendation to individual authorities to enter into Operator agreement | August-September 2017 |
| Award Notice and standstill period | August-September 2017 |
| Contract and SLAs agreed with Operator and signed by individual authorities | October 2017 |
| Commence FCA Approval process | October 2017 |
| Operator preparation for FCA application | October-December 2017 |
| Submission of FCA application | December 2017 |
| FCA authorisation granted for sub-funds | March 2018 |
| Complete establishment of rented Operator and FCA regulated vehicle | March 2018 |
| Finalise plan for initial manager consolidation | December 2017 |
| Procure passive manager(s) using national framework | May 2017 |
| Agree Pool terms for passive assets | August 2017 |
| Formulate plan for transition of liquid assets into sub-funds (including coordination with other Pools) | December-March 2018 |
| Transition manager procurement and appointment | December-March 2018 |
| Inter Authority Agreement (IAA) finalised for Individual Authority approval | 3 February 2017 |
| All Individual Authorities have approved the IAA | 16 May 2017 |
| IAA executed and Joint Committee formalised | July 2017 |
| Custody accounts set up | March 2018 |
| Liquid assets manager selection completed | March 2018 |
| Liquid asset transfer commences | April 2018 |

- **please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues**

The procurement of an operator for a £30bn+ pool of assets is a complex issue and therefore the selection process and the related contract terms need to be carefully managed. While ACCESS are taking all necessary steps to progress the procurement there is the potential that in order to meet the requirements of ACCESS satisfactorily that the timescales could extend from those set out above. ACCESS are managing this risk by taking appropriate advice on relevant issues.

Local election in May 2017 may result in a change in Chairmen representing their Individual Authorities. This may cause delays when bringing new Chairmen up to speed on the project at a point in the project when evaluation of Operator tender responses is occurring. The risk is being managed by proceeding with the approval of the legally binding IAA which should prevent any back-sliding on commitments by incoming Chairmen. The legally binding IAA has been approved by 10 of the 11 Individual Authorities with the final Authority putting it forward for approval 16 May 2017. Agreement is being sought on the procurement approach from outgoing Chairmen prior to the May elections to allow procurement to proceed while any changes in Chairmen occur.

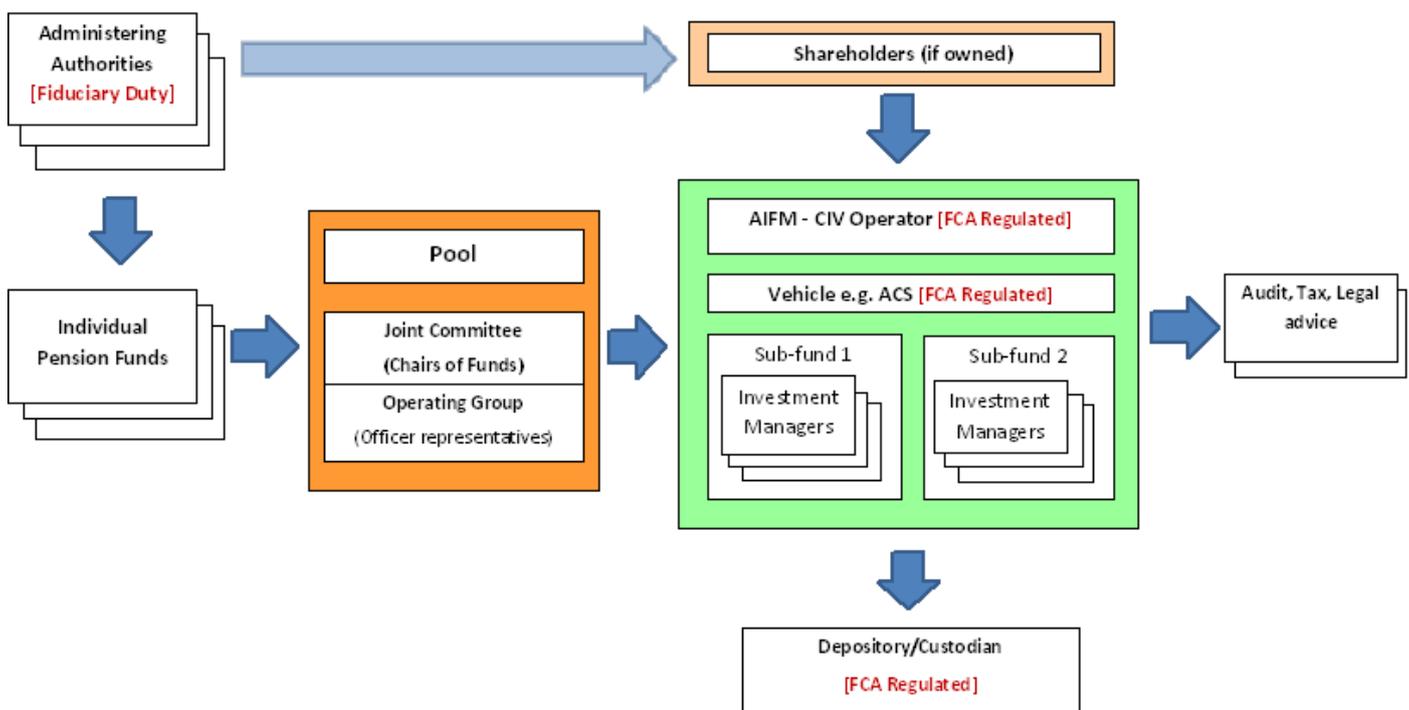
The April 2018 timeline may be impacted by the Pool's ability to confirm the Operator requirements, e.g. Operator spec, sub-fund design, processes specification reporting requirements etc. This needs to be robust. Noted as well as being complex, ACCESS may inadvertently overlook crucial elements due to unfamiliar processes, systems etc., i.e. there may be a number of unknowns. Prevention/reduction: Agreed when drafting the Operator spec, discussions should be had with parties who have relevant experience, e.g. London CIV, LPP, lawyers etc. to address any knowledge gaps.

Criterion B: Governance

For pools in development

Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements.

The Pool proposes to rent an Operator of a fully Financial Conduct Authority (FCA) regulated Collective Investment Vehicles (CIV) and an Alternative Investment Fund Manager (AIFM) to build and operate the collective investment scheme.



Governance arrangements have been drafted which govern the relationships involved in the above diagram. This Inter Authority Agreement (IAA) was put forward for Individual Authority approval in February 2017. To date 10 of the 11 Funds have approved the IAA with the final Fund expected to approve the IAA on 16 May 2017.

The IAA will be formalised and executed by each Individual Authority between May and June 2017 with it coming into effect on the date of the first formal Joint Committee meeting which should be in July 2017.

Criterion C: Reduced costs and value for money

For all pools

Update on costs/savings estimates – please state current high level estimates for implementation costs and eventual annual savings

The estimated costs and savings remain consistent with those set out in our July submission. The only change from the July submission is that it has been agreed that the pool will use a rented Operator structure and therefore these costs will apply.

Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above

Plans for delivering savings, the plan for delivering them and timescales remain consistent with our July submission.

Plans for reporting including on fees and net performance in each listed asset class against an index – In particular please set out how the pool will report fees to participating funds on a fully transparent basis and using comparative performance and/or cost data.

Plans for reporting remain consistent with our July submission.

Criterion D: Infrastructure

For all pools

Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target

The participating authorities have £372m or 1.1% of total Pool assets invested in infrastructure assets.

| Fund | Target Asset Allocation |
|----------------|-------------------------|
| Cambridgeshire | 5% |
| East Sussex | 2% |
| Essex | 6% |
| Hampshire | 5% |
| Kent | 1.5% |
| Suffolk | 5% |

Longer term aim for infrastructure allocation

The participating authorities believe that, in the long-term, there is potential for authorities in the Pool to achieve asset allocation to global infrastructure investments to levels comparable to similar sized international funds, at around 5%. The allocation will vary at individual fund level. This potential is predicated on a vehicle, or vehicles, being able to deliver improved access to the appropriate type of global infrastructure investment, at a lower cost than at present and which meets the objectives of the underlying investors.

The ACCESS Pool is continuing to participate in discussions regarding a longer term solution for infrastructure investment such as the establishment of a national vehicle through which participating authorities could allocate to specialist infrastructure.

ACCESS is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.

Timetable to achieve stated ambition - please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above

As stated above ACCESS is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.