

Local Government Pension Scheme Pooling

Progress Report (October 2017)

In the July 2016 Submission ACCESS authorities wrote to Marcus Jones MP highlighting a number of benefits resulting from their pooling proposals. The table below provide a summary update on progress against these key benefits.

Headline from July 2016 Submission	Progress
Eventual projected savings of £30m annually.	ACCESS authorities remain confident that these savings can be delivered.
Plans for a quick win of £4m per annum from consolidating passive mandates.	This estimate has been exceeded – with estimated annual savings of £5.2m from the successful procurement and appointment of UBS Global Asset Management.
Potential for greater savings in the longer term as the ACCESS pool applies its leverage as one of the largest asset pools in the UK and collaborates with other pools to achieve further benefits of scale in investment management including more direct investment approaches in illiquid assets.	Assets under management for the ACCESS authorities were £40.6bn at 31 March 2017 , with the anticipated value of assets to be held under pool governance of £39bn. The ACCESS pool has maintained its position as one of the largest asset pools in the UK , and will be able to apply its leverage to achieve further benefits of scale.
A pool structure composed of an FCA authorised Collective Investment Vehicle (the Operator and ACS and other pooled investment vehicles to hold assets).	The ACCESS authorities are nearing the final stages of appointing a fully regulated Operator who will in turn set up the FCA authorised sub-funds for the individual funds to invest in.
A significant shift in governance arrangements with the Operator responsible for selecting and contracting with managers on behalf of the authorities participating in the pool.	The Operator will be wholly responsible for selecting and contracting with managers.
Preserving appropriate local decision making (including strategic asset allocation) and building into governance arrangements the critical role of elected members. A Joint Governance Committee will be established which will hold the Operator to account – ensuring democratic accountability and exercising authority's fiduciary responsibilities.	An Inter Authority Agreement has been signed by all ACCESS authorities, which has formally established the Joint Committee structure.
Potential for an increase in UK and global infrastructure provided cost effective access to investment opportunities with the right risk / return profile emerge – ACCESS will support cross-pool collaboration efforts in developing arrangements that enable this.	The ACCESS pool continues to be fully engaged with the Cross Pool Infrastructure group and individual funds continue to invest in and allocate towards infrastructure investments as appropriate.

Further information is included within the main Progress Report.



Local Government Pension Scheme Pooling

Progress Report

October 2017



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

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 2016 Submission (the 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.

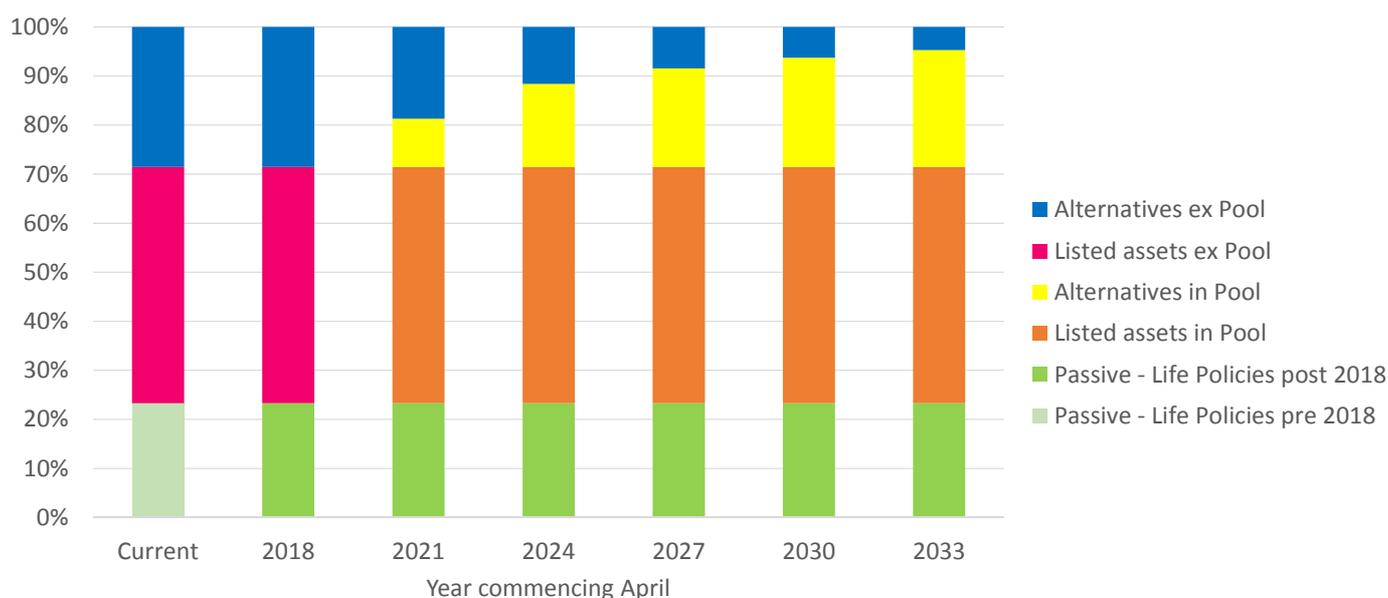
Audited values as at 31.3.2017 have now been added by way of an update.

Authority	31.3.2016 £b	31.3.2017 £b
Cambridgeshire County Council	2.3	2.8
East Sussex County Council	2.7	3.3
Essex County Council	4.9	6.0
Hampshire County Council	5.1	6.3
Hertfordshire County Council	3.5	4.2
Isle of Wight Council	0.5	0.5
Kent County Council	4.5	5.6
Norfolk County Council	2.9	3.5
Northamptonshire County Council	1.9	2.2
Suffolk County Council	2.2	2.6
West Sussex County Council	3.0	3.8
Total	33.5	40.6
Anticipated value of assets to be held under pool governance	31.8	39.0

The anticipated value of assets to be held within the Pool includes passively managed assets which will be held in Life Policies. The Life Policies themselves will remain an agreement between the participating authority and the appointed external investment manager, UBS Global Asset Management.

The planned transition of the majority of these assets into the Pool and the timeline for doing so remain in line with the indicative timeline of the Submission, as illustrated in the chart below. The assumptions underlying the timetable 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 outside the Authorised Contractual Scheme (ACS) but within Pool governance on jointly negotiated Pool terms. This will be implemented early in 2018 so that circa £11bn of ACCESS assets will be under Pool governance by April 2018.
- A Pool solution for alternative assets is intended to be developed by 2021 to allow new commitments to be made to ACCESS investment solutions



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

There has been no change to the proposed assets to be held outside since the Submission.

The values have been updated to 31.3.2017 reflecting and increase due to market movements.

Outside of Pool	31.3.2016 values (£m)	31.3.2017 values (£m)
Direct property	1,600 (4.8% of Pool assets)	1,523 (3.8% of Pool assets)
Local investment	43 ¹ (0.1% of Pool assets)	55 (0.1% of Pool assets)
Operational cash	Variable	Variable

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

Please see Appendix 1.

The participating Authorities have consolidated their passive equity mandates, resulting in estimated savings of £5.2m per annum (or 72% compared to the 2015 cost benchmark). The Authorities worked with the National LGPS Framework and have appointed UBS Asset Management (UK) Limited for an initial period to 31 March 2028, with a possible five year extension and additional extension to November 2036.

The Joint Committee is engaged in the establishment of the Contract Management function.

¹ Asset value evaluated for the 2016 Statement of Accounts from £17m (per July 2016 Submission) to £43m.

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

In the previous update it was suggested that local elections and the complexity of an Operator / contract mobilisation were risks to the project delivery.

- Local elections in May 2017 resulted in a change in Chairmen representing their Individual Authorities. However all Chairmen, new and incumbent, are fully engaged with the initiative.
- The procurement of an operator for a £30bn+ pool of assets remains a complex issue. The finalisation of the Invitation to Tender documents has therefore been carefully considered. The timescales versus those presented previously were extended slightly to allow for significant legal, insurance and industry/investment advice to be provided. This included external advice on the number and design of sub-funds to validate ACCESS's own analysis, inform the tender specifications and enable work on sub-fund design to proceed in parallel with the Operator procurement, having benefit for sub-fund set up. In addition the level of diligence undertaken prior to publication of the ITT will ensure the robustness and clarity of the service specification and associated contract terms, which will have a long term benefit to the individual authorities.

Submissions from potential providers have now been provided and are being evaluated and moderated by participating Authorities. The outcome of the procurement should be known by the end of November. However there is still a risk that finalising details of sub-fund design, processes, reporting requirements etc with the Operator once appointed will take longer than expected. This risk is being mitigated as far as possible by further work on these aspects by the ACCESS officers and advisers.

The risk of the significant influx of work required from the Financial Conduct Authority (FCA) in authorising Collective Investment Schemes for the whole LGPS wide pooling initiative is also a concern to the ACCESS pool.

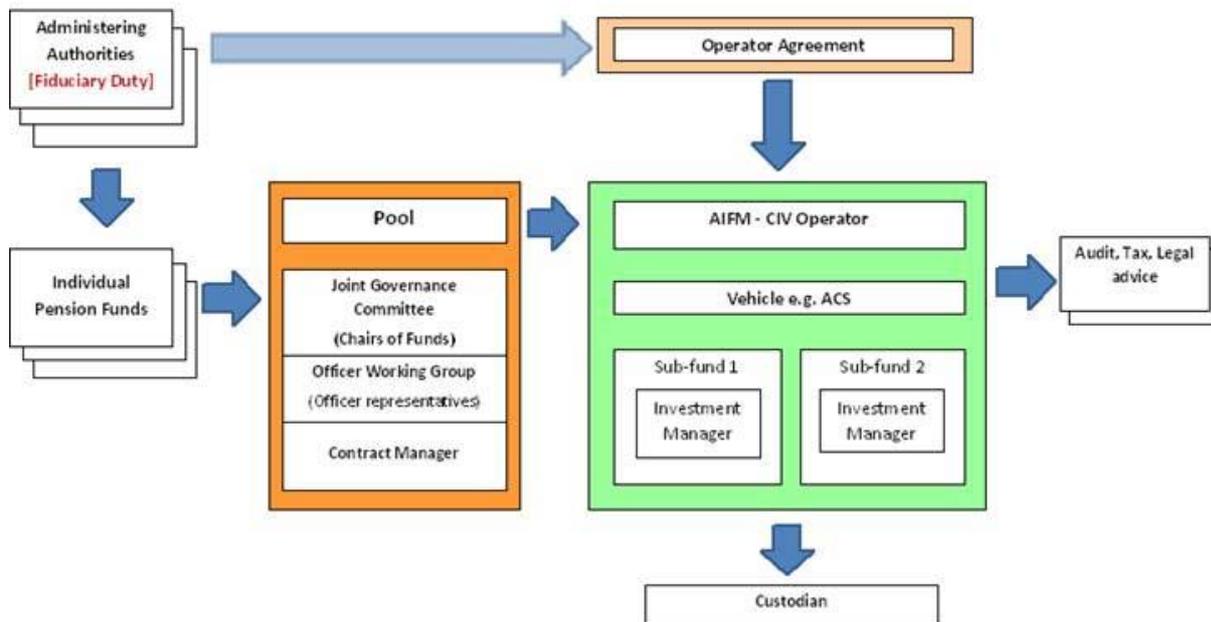
In addition there is a risk that if a client unit is not set up promptly, specifically the Client Contract Management Function Lead role, they will be unable to be intrinsically involved in the initial discussions with the Operator. The Contract Management function has been defined and will be recruited following approval from the Joint Committee. Interim measures will be put in place to cover any period prior to the post holder being in place.

Finally, although it is expected that the Operator completes the application process for authorisation of the ACCESS ACS in the first quarter of 2018, there is a risk that the Financial Conduct Authority (FCA) will not have responded by April 2018.

Criterion B: Governance

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

The diagram below is based on the Submission and continues to reflect the governance arrangements being implemented by ACCESS authorities.



The Pool will rent a Regulated Operator who will provide access to Financial Conduct Authority (FCA) Regulated Authorised Contractual Scheme (ACS).

Elected Members continue to be fully engaged in the Pooling initiative.

- The Inter Authority Agreement which determines the relationship between each of the individual Pension Fund's and the Joint Committee has been ratified by each of the participating authorities.
- The Joint Committee held its first formal meeting on 31 July 2017. Agendas, papers and minutes can be found on the Kent County Council website.
- The Joint Committee met on 2 October 2017 with a further meeting planned for 13 December.

Criterion C: Reduced costs and value for money

Update on annual savings estimates including reductions in fees / mandates

The estimated savings in respect of basis points remain consistent with those set out in the July 2016 Submission with the exception of the following:

- It has been agreed that the Operator will be rented rather than established and owned by ACCESS authorities.
- The level of fee reductions negotiated in the passive manager procurement exceeded the savings indicated. Fee savings have been calculated relative to the baseline of 31 March 2015 as being in excess of £5.2m. All participating funds have benefited from substantial fee benefits.

Work is currently underway to develop an initial sub-fund framework to coincide with the Operator appointment so that meaningful early progress in pooling assets can be made and investment manager fee savings achieved for the benefit of the ACCESS funds. ACCESS authorities expect to have in the region of 25-35 sub-funds once a full transition is completed, reducing the current number of mandates significantly.

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

With the caveats already noted, the plan for delivering savings and timescales remain consistent with our Submission.

Plans for reporting including on fees and net performance in each listed asset class against an index

Plans for reporting on fees, net performance and comparative performance remain consistent with our Submission.

As part of the Invitation to Tender for the Operator, bidders will be evaluated on their ability to:

- Provide advice on, manage, coordinate, oversee and provide full cost transparency reporting on the transition of assets of the Pool (which may include liaising with third party managers and transition managers, and, potentially advising the Administering Authorities on the transition of their existing assets where required);
- Work with the Administering Authorities to facilitate the approach to Corporate Governance and Socially Responsible Investing enabling the Pool and Funds to continue to discharge their policies and responsibilities in respect of the Code of Transparency for LGPS asset managers, LGPS regulations and Corporate Governance activity;
- Provide manager fee information, transaction cost analysis, etc. to ensure the Funds and Pool can adhere to the Code of Transparency for LGPS asset managers

The general obligations around providing full cost transparency reporting and performance reporting for pool and non-pool assets have been reflected in the Operator specification.

Plans for how the Pool will report publicly on a fully transparent basis – please confirm that the pool will adopt the Scheme Advisory Board Code of Transparency for reporting to participating funds

Plans for reporting on a fully transparent basis remain consistent with our Submission.

In addition to the comments made above, the Operator Agreement specifically requires that the Operator has regard (without limitation) to the requirements specified in the Local Government Transparency Code 2015, the Pension Fund Disclosure Code and the Financial Reporting Council's Stewardship Code and provides any such data as the Administering Authorities shall require to be able to adhere to the LGPS Code of Transparency (or any replacement or amendment to that code) for LGPS investment managers.

Criterion D: Infrastructure

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

At the time of the July 2016 Submission the participating authorities had £372m or 1.1% of total Pool assets invested in infrastructure assets.

At 31.3.2017, this figure had increased to £490m, or 1.2% of total Pool assets.

The target allocations have remained as per the July 2016 Submission

Fund	Target Asset Allocation 31.3.2017
Cambridgeshire	5%
East Sussex	2%
Essex	6%
Hampshire	5%
Kent	1%
Suffolk	5%

Longer term aim for infrastructure allocation

The participating authorities continue to 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.

