

# HERTFORDSHIRE COUNTY COUNCIL

## PENSION COMMITTEE TUESDAY 1 MARCH 2016 AT 9AM

### HERTFORDSHIRE COUNTY COUNCIL PENSION FUND POOLING OPTIONS

#### Report of the Director of Resources

Author: Patrick Towey, Head of Specialist Accounting  
(Tel: 01992 555148)

Executive Member: Chris Hayward, Resources and Performance

#### **1. Purpose of report and Summary**

1.1 The purpose of this report is to provide members of the Pension Committee with the findings from the independent review of the options for pooling by Mercer and to recommend to Council this Committee's preferred option for pooling.

#### **2. Summary**

2.1 The Government published guidance in November 2015 setting out its criteria for the pooling of Local Government Pension Scheme (LGPS) assets. In this guidance it directed all 89 LGPS Funds in England and Wales to aggregate their assets to form six distinct asset pools. The Government set two deadlines, the first the 19 February 2016 was for each LGPS Fund to state its commitment to pooling; the second deadline was for the chosen pools to prepare detailed submissions on pool structure to be delivered to Government by 15 July 2016. The Government will assess each pool against the following criteria:

- Size (at least £25bn in assets under management)
- Governance
- Reduced fees and "value for money"
- An increased capacity for investing in infrastructure

2.2 The report titled "LGPS Investment Reform" was presented to this committee on 5 February and provided the Committee with details on the development of Local Government Pension Scheme (LGPS) asset pools and the options for pooling available to the Hertfordshire Fund. It was agreed by members that an independent review of these options was undertaken by Mercer, the Fund's investment advisor, and that a report prepared with a recommendation on the preferred pool for this meeting.

2.3 Mercer was asked to review three pooling options in particular and these were the following:

1. The London Collective Investment Vehicle

2. The Lancashire/LPFA pool
3. ACCESS (A collaboration of Central, Eastern and Southern Shires)

Mercer was asked to assess each particular pool against criteria covering: principles, degree of “like-mindedness”, size of pools and number of participants, governance, costs of set-up and on-going costs, synergies of investment managers and consultants used, external versus internal management, and finally transition.

- 2.4 The Mercer report attached as appendix A to this report provides an evaluation of the criteria in 2.2 of each pool under consideration, with a view to recommending a final pool for the members of this committee to agree upon, and recommend to Full Council on 22 March 2016 as this committee’s preferred choice.
- 2.5 Members at the last Pension Committee indicated that the key criteria for this committee in the selection of a pool would be influenced by the strategic synergies between the parties in the pool. Partners would need to have ‘like-minded’ interests particularly with regards to equitable rights and strong governance, strategic synergies in terms of size, current structures, investment managers and advisors used, and ability to deploy our investment strategy. The table below summarises the pros and cons of each option and whether it meets the ‘like-minded’ interests of Hertfordshire.

Option	Pros	Cons
London Collection Investment Vehicle (CIV)	<ul style="list-style-type: none"> <li>• Established FCA company, furthest advanced of the pools</li> <li>• Meets criteria for assets under management (£24bn)</li> <li>• Equitable voting rights</li> <li>• External management</li> </ul>	<ul style="list-style-type: none"> <li>• Governance – one voice amongst many weakens ability to influence</li> <li>• Hertfordshire largest Fund by size</li> <li>• No control over direction of travel</li> <li>• Can’t influence or shape project plan</li> <li>• Transition costs if managers are different</li> <li>• Investment strategy may not be accommodated as investment managers already appointed</li> </ul>
London Lancashire Pensions Partnership	<ul style="list-style-type: none"> <li>• Regulatory work progressing, expect FCA authorisation in March</li> </ul>	<ul style="list-style-type: none"> <li>• Governance – structure and principles already determined.</li> <li>• Investment</li> </ul>

	<ul style="list-style-type: none"> <li>• No contribution to regulatory capital or set up costs</li> <li>• Equal voting rights if we join as shareholder</li> <li>• Existing relationship with Fund</li> </ul>	<p>managers - few synergies across traditional asset classes</p> <ul style="list-style-type: none"> <li>• Preference for internal management</li> <li>• Does not meet criteria for assets under management (£11bn)</li> <li>• Potential merger with Northern Powerhouse increases future unknowns</li> <li>• Advisors – does not use external advisors</li> </ul>
ACCESS (A Collaboration of Central, Eastern and Southern Shires)	<ul style="list-style-type: none"> <li>• Currently similar governance structures (Shires)</li> <li>• Equitable voting rights</li> <li>• Founding member with ‘like minded’ partners on common principles, can develop and shape the governance and structure of pool</li> <li>• Synergies across investment managers and advisors used by funds</li> <li>• External management</li> <li>• Meets criteria for assets under management (£30bn +)</li> </ul>	<ul style="list-style-type: none"> <li>• In early stages and less well developed than the other two options</li> <li>• Tight timescale to deliver pool proposal to Government.</li> <li>• Future structure unknown</li> <li>• Set up costs unknown</li> </ul>

2.6 The Mercer report, appendix A, provides further detail on these pools and concludes that based on our primary criteria of a strong governance structure and strategic fit then they would recommend ACCESS as the preferred option for the Hertfordshire Fund to join. In addition to the three options that have been

considered in this report, Mercers also looked at whether any of the other pools would be worth considering as a viable option for this Fund. The report concludes that these other pools didn't appear to offer any additional benefits/risks from those that have been considered in more detail in this report.

### **3 Financial Implications**

- 3.1 Initial estimates of the work required to meet the government requirements through project pool are in the order of £60k to July 2016, this will be charged to the Pension Fund. The July submission to government will provide an assessment of more details costs and benefits of the pooling arrangements.

### **4. Recommendations**

- 4.1 The Pension Committee recommend to County Council subject, to any impact from the Chancellor of the Exchequer's budget announcement on the 16<sup>th</sup> March that
- (a) the Hertfordshire Pension Fund gives its commitment to join the ACCESS LGPS pool subject to ACCESS meeting the Government's criteria for pooling when ACCESS submits its final proposal in July 2016; and
  - (b) the Chief Finance Officer in consultation with the Chairman of the Pension Committee sign the memorandum of understanding with ACCESS members on behalf of the Hertfordshire Pension Fund to
    - 1. Demonstrate its commitment to LGPS Multi-Asset Pools; and
    - 2. Facilitate the work required to meet the requirement to submit detailed proposals to Government by the 15 July 2016 deadline.

#### Background Information

<https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

<https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>

<https://cmis.hertsdirect.org/hertfordshire/Calendarofcouncilmeetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/307/Committee/11/SelectedTab/Documents/Default.asp>

X