

PENSION FUND ASSET POOLING – ACCESS UPDATE

Report of the Director of Resources

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

1. Purpose of the Report

- 1.1 To provide the Pension Board with a review of the activities undertaken by the ACCESS group since the last update that was shared with this Committee in February 2017.

2. Summary

- 2.1 At its meeting on 7 March 2017, the Pension Committee recommended to Council that the Council agrees to set up a Joint Governance Committee (JGC) with the other ten member authorities of the ACCESS pool with effect from the date of completion of the Inter Authority Agreement (IAA) and to appoint one member of the Council to the Joint Governance Committee. Council approved this recommendation at its meeting of 21 March 2017. All eleven ACCESS member Councils have now agreed the IAA and the creation of the JGC.
- 2.2 The ACCESS group, in its July 2016 submission to Government, set out its intention to rent a Financial Conduct Authority (FCA) approved operator for the future management of the Fund assets of the ACCESS pool. The Government approved this submission on 22 March 2017. Each pool is expected to have its pool structure in operation by the 1 April 2018.
- 2.3 ACCESS will procure an operator thorough an open public tender procurement process, this work is being led by Kent County Council procurement team supported by officers from the other ACCESS Funds. Squire Patton Boggs has been appointed as legal advisor to the Pool following a procurement led by Hertfordshire officers. Hymans Robertson is acting as the project manager for the ACCESS group and has supported this project since their appointment in early 2016.
- 2.4 The ACCESS submission to Government in July 2016 set out an intention for a “quick win” from consolidating passive mandates. Consolidation of these mandates with one market provider will deliver savings from reduced fees as a result of the size of assets under management. A provider will be appointed from the National LGPS frameworks procurement vehicle for the ACCESS

pool. The Hertfordshire Fund currently has £1.37bn assets under passive management with Legal & General Investment Management.

3. Recommendations

- 3.1 That the Pensions Board notes the content of this report.

4. Background

- 4.1 In the summer 2015 budget the Chancellor announced the Government's intention to invite Administering Authorities to make proposals for pooling LGPS investments. The Department for Communities and Local Government (DCLG) published its criteria for pooling investments in November 2015 based on four elements:

1. Scale – Pools of assets with at least £25bn of assets;
2. Strong Governance – authorities are charged with defining the mechanisms by which they can hold the pool to account;
3. Reduced costs – including estimated savings over the next 15 years; and
4. Improved capacity to invest in infrastructure through pooling.

- 4.2 The Hertfordshire LGPS is a member of the ACCESS pool which is made up of eleven Shire Counties from the East, South East, and South of England. In its July 2016 submission to Government, ACCESS set out its plan to pool investments through a Collective Investment Vehicle (CIV) that would be administered and maintained by a third party operator. The operator would be collectively managed by the pension funds through a joint governance committee established by the Authorities and made up of one member from each authority.

- 4.3 The role of the operator is to manage collectively the assets of the ACCESS pool. The operator does this by setting up a collective investment scheme (CIS) which is a regulated vehicle under the Financial Securities and Markets Act 2000 ("FSMA"). Establishing or operating a CIS is a regulated activity requiring authorisation from the Financial Conduct Authority ("FCA"). The participants in the scheme i.e. the ACCESS Funds will share the profits or income in the sub-funds in which they are invested in through the CIS. However, the ACCESS funds will not have day-to-day control over the management of the assets; this will be the responsibility of the Operator as this is a regulated activity.

5. Governance

- 5.1 The inter-authority agreement will establish the Joint Governance Committee; the JGC will be responsible for the following functions:

- Specifying the operator service to be procured;
- Procuring the operator;

- Appointing the operator;
 - Reviewing the performance of the operator;
 - Managing the operator; and
 - Appointment of advisers.
- 5.2 The JGC will be “hosted” by one of the ACCESS local authorities and will undertake the secretariat function for the JGC. Kent County Council will be the initial host authority. The Chairmen of the ACCESS Pension Fund Committees have up to this point in time met on a shadow basis and will formally meet for the first time as an established body in July 2017, subject to the completion of the legal sealing of the IAA by all Funds. At this first meeting, a Chairman and Vice-Chairman will be appointed by the eleven ACCESS fund Chairmen.
- 5.3 In its shadow form the ACCESS Chairmen have met monthly supported by Fund officers, these meetings have been chaired by a Hertfordshire Officer, Patrick Towey. The Hertfordshire Pension Committee (PC) and Pension Board have been kept apprised of the ACCESS pool development and progress at its quarterly meetings.
- 5.3 The Pension Committee’s future role will be to agree and approve the investment strategy for the Fund. However, the PC will no longer be able to appoint Fund managers directly and in the future this role will be undertaken by the Operator who will appoint the managers in consultation with the JGC. The asset allocation requirements of each Fund will be implemented by the JGC who will instruct the Operator via a client function, made up of Fund officers, to set up sub funds to meet the Funds’ requirements. The Chairman of the Hertfordshire Pension Fund will sit on the JGC alongside the other ten Chairmen of the ACCESS Funds.

6. Procurement

- 6.1 Kent County Council’s procurement team are leading on the procurement of the Operator supported by a number of ACCESS officers and Hyman specialists. Squire Patton Boggs have been appointed to provide legal advice to ACCESS and are supporting officers in the drafting of tender and contract documents as well as providing advice on FCA regulations and procurement law.
- 6.2 To inform the procurement approach to be adopted, a concept viability day was held in April attended by ACCESS Fund Chairmen at which a number of operator providers also attended. The purpose of this meeting was to gain a better understanding of market coverage and experience and to inform certain gaps in the tender specification. Following this meeting the ACCESS Chairmen agreed that an open procurement process should be adopted, as opposed to a competitive dialogue which is only used for complex procurements where the requirement is not fully known.
- 6.3 The proposed procurement timetable is set out below:

Stage	Dates
Issue OJEU ¹ & ITT ²	10 July 2017
Tender response deadline	21 August 2017
Tender evaluation period	22 August - 22 September 2017
Governance	25 September - 13 October 2017
Notification of award, pre-award meeting & contract construct	16 October – 31 October 2017
Contract signature	1 November 2017

- 6.4 The contract term will be for five years with the option to extend for a further two years. The expectation is that the appointed Operator will be able to get an FCA Authorised Contractual Scheme (ACS) umbrella structure established by the 1 April although transition of assets to the pool may not occur immediately.
- 6.5 In order to (a) reduce transition costs on the initial transfer of assets from individual administering funds into the ACCESS ACS and (b) retain a number of existing investment managers, it is anticipated that some or all of the initial set of ACS sub-funds will use investment managers currently contracted to ACCESS administering authority Funds.

A detailed analysis of the areas of commonality between the existing investment managers and mandates will need to be undertaken. This will include an analysis of benchmarks for various asset classes and will inform for consideration by the JGC the initial set of ACS sub-funds. A sub-fund will be created for each asset class and could be single or multi-manger depending on the requirements of the ACCESS funds.

This analysis will be commissioned from a third party and will be undertaken alongside the Operator procurement so that on contract award the appointed Operator will have a framework structure of sub-funds to set up. For the purpose of submitting tender bids, tenderers will be asked to submit bids based on two model portfolios with an estimated range of between 25 to 35 sub-funds.

7. Passive Procurement

- 7.1 The ACCESS pooling proposal submitted to Government in July last year set out an intention for a “quick win” from consolidating passive mandates with one single asset manager. Passive mandates are held in the form of a Life Policy between the administering authority and the appointed external investment manager and can’t be pooled under an ACS structure. The total assets under passive management for ACCESS are £10.5bn

¹ OJEU – Official Journal of the European Union

² ITT – Invitation to tender

7.2 ACCESS, working through the National LGPS Frameworks procurement vehicle, has completed the construct of a multi-provider framework. Contracts were awarded to four passive providers in January 2017:

- Legal & General Investment Management Limited
- Deutsche Asset Management (UK) Limited
- BlackRock Investment Management (UK) Limited
- UBS Asset Management (UK) Limited

7.3 The passive framework documentation provides useful information such as ceiling fee prices from the four providers which can be applied against the pool's current arrangements. This information indicates:

- That all funds which currently hold passive mandates will make savings against any of the four providers on the framework; and
- The July ACCESS submission estimated a pool level savings target of £4m per annum and is a reasonable expectation of the outcome of a "mini" tender process.

7.4 ACCESS has now commenced a "mini" tender process within this framework. The procurement process is due to conclude in June/July and the intention is to appoint a single provider to the ACCESS pool. A recommendation will be put to the JGC for ratification at either its July or August meeting.

7.5 Once the outcome of the tender is known, an analysis will be undertaken by officers to compare current provider fee arrangements to the successful bidder and, if there are demonstrable savings and a clear value for money case, then a recommendation will be made to this Committee to appoint the manager awarded the ACCESS passive contract.

8. Financial Implications

8.1 The costs incurred by the Hertfordshire Fund up to the end of March 2017 were £103,897.44 for the ACCESS project; these costs include legal and project management fees but exclude officer time. The estimated implementation costs of establishing a CIV are estimated to be £160k for the Hertfordshire Fund.

8.2 Eventual savings for the ACCESS Pool are projected to be £30m annually. Allowing for investment growth of 3-5% per annum, by year 10 this will be ³equivalent to £40-50m.

References:

ACCESS July submission to Government

(<http://cmis.hertfordshire.gov.uk/hertfordshire/Calendarofcouncilmeetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/617/Committee/11/Default.aspx>)

³ ACCESS pool submission to Government dated 15th July 2016.