

PENSION FUND ASSET POOLING – ACCESS UPDATE

Report of the Director of Resources

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1. Purpose of the Report

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

2. Summary

- 2.1 The Inter Authority Agreement that establishes the Joint Governance Committee for the ACCESS asset pool has now been approved by all eleven constituent fund members of ACCESS. Following the approval of this agreement the ACCESS Joint Committee met formally for the first time on 31 July 2017 in the Council Chambers of Camden Council. At this meeting Cllr Andrew Reid (Suffolk) was elected Chairman and Cllr Richard Stogdon (East Sussex) Vice-Chairman of the Joint Governance Committee (JGC) until 31 July 2019. Items on the agenda at this meeting included the following:
- Governance – agreement of terms of reference;
 - Pooling – introduction to asset pooling for new Chairmen;
 - Operator procurement – update;
 - Client function role; and
 - Review of risk monitor.
- 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 1st 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. In addition, Squire Patton Boggs are providing legal advice on contractual matters and Hymans Robertson are providing project management support.

- 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 Committee 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. County Council at its meeting on 21 March 2017 approved the Pension Committee recommendation to set up a Joint Governance Committee (JGC) with the other Authorities in the ACCESS pool. Functions in relation to the Operator such as specifying the services to be procured and the procurement approach are delegated to the JGC as part of the Inter Authority Agreement signed by the eleven members of ACCESS.

- 4.3 The role of the operator is to collectively manage 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.

- 4.4 The Pension Committee's future role will be to agree and approve the investment strategy for the Fund setting out its asset allocation, restrictions and ESG requirements. 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.

5. Governance

- 5.1 Kent County Council will undertake and host the secretariat function for the JGC. The first formal meeting of the JGC took place at Camden Town Hall on 31st July. At this meeting the JGC elected Cllr Andrew Reid (Suffolk CC) as Chairman and Cllr Richard Stogdon (East Sussex) as Vice-Chairman until 31 July 2019. The JGC is made up of the Chairman of the ACCESS Funds and the Chairman of the Hertfordshire Pension Fund, Cllr David Williams represented Hertfordshire CC at this meeting.

- 5.2 The JGC agreed the terms of reference for its operation which are:

- Specifying the Operator services to be procured;
- Procuring the Operator;
- Appointing the Operator;
- Reviewing the performance of the Operator;
- Managing the Operator;
- Appointment of advisers;
- Functions in relation to management of pool assets;
- Functions concerning pool aligned assets; and
- Functions concerning business planning and budget.

- 5.3 The JGC also discussed the need to formalise a business plan for the Committee as well as prepare a budget for its operation and asked officers to bring this plan and budget back to a future meeting.

- 5.4 Papers from past and future ACCESS JGC meetings will be made available on the Hertfordshire website in the Cabinet and Committee section of the website. Papers for the ACCESS meeting held on 31 July 2017 can be found using the following link:

<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=898&MId=7779&Ver=4>

6. Client Role

- 6.1 As part of the governance for the day to day management of the operator contract it was agreed by ACCESS Chairman at its meeting in October 2016 that an intelligent client contract management function should be established. The client contract function will be responsible for the implementation of local fund strategic asset allocation decisions and will act as the conduit between the Funds, JGC and the operator.
- 6.2 The ACCESS operator contract will be a significant contract with a contract value estimated to be between £16-25m over 5 years and with AUM of up to £40.6bn; this will be a potentially complex contract with a number of technical, legal and strategic issues and a number of relationships to be managed on a day to day basis.
- 6.3 It is important that the client function is staffed by individuals with the appropriate skill sets and led by an individual who has the right commercial, technical, inter-personal and management skills. The remuneration for this role should be based on market intelligence. The JGC agreed that a Head of Intelligent Client Function job description and person specification should be developed in consultation with the Chairman and Vice-Chairman of the JGC and shared with members of the JGC for consideration at their next meeting. Subject to the approval of the job description and person specification by the JGC it is envisaged that this individual will be in post prior to the start of the contract.
- 6.4 Other factors that will need to be considered in the development of the client function and roles to support this function will be the number of officers that will be TUPEd to this function, secretariat support and where this Function is hosted i.e. by an ACCESS authority.
- 6.5 Although the Fund will no longer be able to appoint investment managers directly, the work undertaken by the Fund, its officers and the Pension Committee will remain relatively unchanged. The Pension Committee will continue to be responsible for setting the investment strategy, monitoring Fund performance, asset allocation decisions and all other pension related matters. The role of the JGC, through the client unit, will be to implement the asset allocation decisions made by local funds and monitor the performance of the sub-funds managed by the Operator.

7. Operator Procurement

- 7.1 Kent County Council's procurement team are leading on the procurement of the Operator supported by a number of ACCESS officers and Hymans specialists. Squire Patton Boggs are providing 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.
- 7.2 Legal and procurement officers from the ACCESS Funds have also contributed to the review of the invitation to tender documents as well as

the operator contract. Additional advice has been commissioned from specialist insurance brokers to inform the insurance requirements to be specified in the operator agreement.

- 7.3 ACCESS fund officers have also commissioned work from a third party to define the optimum number of sub-funds that should be specified in the tender documents, this will inform better pricing in bids from potential bidders. In addition, they were also asked to review ACCESS fund management arrangements to ascertain where there are common managers or similar styles of investment management.
- 7.4 In order to (a) reduce transition costs on the initial transfer of assets from individual administering funds into the ACCESS Authorised Contractual Scheme (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. Squire Patton Boggs have provided legal advice to ACCESS on how current investment management agreements can be novated to the operator and how new manager appointments can be made to the pool in consultation with ACCESS Chairmen.
- 7.5 As a result of the additional work commissioned during the preparation of the procurement documents, the proposed procurement timetable has been revised and is set out below:

Stage	Dates
Issue OJEU ¹ & ITT ²	6 September 2017
Tender response deadline	6 October 2017
Tender evaluation period	9 October - 13 November 2017
Evaluation panel moderation meeting	13 November 2017
Recommendation to award report	16 November 2017
Contract signature	1 November 2017
Pension Committee decision	29 November 2017
Contract commencement date	1 February 2017

- 7.6 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 1st April although transition of assets to the pool may not occur immediately.

8. Passive Procurement

- 8.1 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

¹ OJEU – Official Journal of the European Union

² ITT – Invitation to tender

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.

8.2 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

8.3 ACCESS officers are in the process of evaluating tender bids following the running of a mini tender process involving the four providers set out in 8.2. A verbal update will be provided to this Committee if a recommended provider has been agreed by the JGC before this meeting.

8.4 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.

9. Financial Implications

9.1 The costs incurred by the Hertfordshire Fund up to the end of May 2017 were £123,314.00 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.

9.2 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.