Marcus Jones MP
Minister for Local Government
Department for Communities & Local Government
Fourth Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Chairmen of the Participating Authorities in the ACCESS Pool

15th. July, 2016

Dear Minister

As Chairmen of the LGPS committees of the administering authorities who have joined forces to establish the ACCESS pool, we present our pooling proposals to government as required following guidance on pooling published in November 2015. We understand from DCLG (in a letter dated 8th June) that Ministers will provide confirmation that they are content for us to proceed. We will therefore not start establishing the formal structure of the Pool until we receive that confirmation from Ministers.

Highlights of our proposals include:

- Eventual projected **savings of £30m annually** based on further analysis of options for extracting savings following our provisional estimate of circa £21.8m in June. Allowing for future investment growth of 3-5% per annum, by year 10 this will be equivalent to annual savings of £40-50m which represents a significant proportion of the projected annual savings of £200-300m across all pools estimated by Project POOL. The savings will not be evenly distributed across the individual funds since some already have very low costs. In fact, some individual authorities could see their costs increase as a result of the extra layer of costs in running the pool.

- Plans for a **quick win of £4m per annum** from consolidating passive mandates.

- 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.

- A pool structure composed of an **FCA authorised Collective Investment Vehicle** (the Operator and ACS and other pooled investment vehicles to hold assets).

- 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.

- 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.**

- 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.

A primary focus of government proposals is cost saving. International benchmarking experts CEM have assessed the current investment costs of ACCESS authorities. This has shown that current costs already compare favourably with larger international funds. This demonstrates the effectiveness of local authority procurement and the strength of current governance arrangements of the individual funds. By joining forces in a pool we will be able to apply even greater leverage to achieve additional savings.

However, it would be wrong to focus only on cost savings. Investment performance is key and can easily deliver greater benefits. Outperformance of a mere 0.1% (10 basis points) is worth £30m annually now, the same as the projected eventual annual cost savings. Going forward, the ACCESS authorities will continue to focus on using the best available investment managers to deliver superior investment performance.

Our work to date has identified barriers that government can help remove. These include:

- Discussions with the FCA to avoid inappropriate regulatory capital requirements; and

- Minimising any tax charges on transfer of assets to pools – as our submission evidences, excessive transition costs could wipe out many years of savings and are one of the biggest risks affecting the pay-back period for our proposals.

We would urge government to support the pools on these issues.

The ACCESS pool places great store on objective, evidence based decision making guided by a set of principles agreed by the participating authorities which has served us well to date and will continue to do so in future. We believe these proposals will meet government objectives and enable participating authorities to retain democratic accountability and exercise their primary fiduciary responsibility to LGPS stakeholders, including scheme members and employers, as economically as possible.

In her letter dated 8th June, Teresa Clay at DCLG confirmed that Ministers will confirm whether they are content for us to proceed "as soon as possible in the autumn". Given the short timescales, we would ask Ministers to confirm as a matter of urgency that they are content with our proposals so that we can commence implementation. Otherwise there is a risk that the government's timetable cannot be met.

We look forward to working with you over the summer to deal with any questions which arise and to ensure that expected progress is being made. We will not start establishing the formal structure of the Pool until we receive confirmation that Ministers are content for us to proceed. We look forward to your early response.

Yours sincerely,

The Chairmen of the Participating Authorities in the ACCESS Pool

Cambridgeshire County Council

East Sussex County Council

Essex County Council

Mark N. Kemp-Gee

Hampshire County Council

Hertfordshire County Council

Isle of Wight Council

J. E. Scholes

Kent County Council

Norfolk County Council

Northamptonshire County Council

Suffolk County Council

Jeremy C. Hunt

West Sussex County Council

ACCESS

Effective • Collective • Investment

The submission from

ACCESS

(A Collaboration of Central, Eastern & Southern Shires)

in response to the

LGPS: Investment Reform Criteria and Guidance

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 guiding 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.

Contents

Please note:

Throughout this submission, in relation to Pool implementation and operation costs, the basis point (bps) costs have been expressed in terms of the total Pool assets of £33.5billion. In practice, the running cost fees are likely to apply only to the assets physically held and directly managed within the Pool (i.e. excluding direct property and Life Policies).

The participating authorities are grateful to the following sources who have been used to inform this submission:

- Aviva
- Baillie Gifford & Co.
- Capita
- CEM Benchmarking
- Cross Pool collaboration Group and other Pools
- Eversheds
- Friends Life
- Goldman Sachs
- Harbour Vest
- HSBC
- Hymans Robertson
- Mercer
- Nomura
- Partners Group
- Project POOL
- State Street
- Squires Patton Boggs
- Wellington Investment Management

If you have any questions regarding the content of this document please contact either Paul Finbow at paul.finbow@suffolk.gov.uk or Rachel Wood at rachel.wood@westsussex.gov.uk.

Criterion A: Asset Pools that achieve the benefits of scale

A1. The size of the Pool once fully operational.

a) Please state the total value of assets (£b) to be invested via the Pool once transition is complete (based on asset values as at 31.3.2015).

a)

The ACCESS Pool represents assets in total of £33.5b based on asset values as at 31.3.2015. The values contributed by each of the participating authorities are 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

- 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). This will ensure value for money through competitive fees, avoid any unnecessary transition and oversight costs and overcome some technical issues associated with a Collective Investment Vehicle (CIV) holding a Life Policy.
- The majority of existing illiquid assets will be run off over their normal investment lifecycle in order to optimise their existing economic benefit. Future allocations will be invested through the Pool.
- A small proportion of assets remain permanently outside, as set out in A2.

A2.	**Assets which are proposed to be held outside the Pool and the rationale for doing so.**
a)	Please provide a summary of the total amount and type of assets that are proposed to be held outside of the Pool (once transition is complete, based on asset values at 31.3.2015).
b)	Please attach an ANNEX for each authority that proposes to hold assets outside of the Pool detailing the amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money.

a)

The table on the following page sets out the assets that the participating authorities intend to hold permanently outside the Pool and the rationale for doing so.

In the future, it may be appropriate for participating authorities to hold additional assets, such as local targeted investments as set out in 3.12 of the *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	1,600 (4.8% of Pool assets)	Four of the participating authorities in the Pool have existing direct portfolio allocations and each will hold these outside the Pool. The rationale for holding these outside are as follows: - The portfolios have been built to specific target requirements of the respective authorities including their risk and return requirements. - Direct portfolios are designed to account for target holding sizes, to reflect the total portfolio size and achieve the required levels of diversification. To move these holdings to part of a bigger direct portfolio would have significant cost implications, such as Stamp Duty Land Tax (SDLT), in order to reshape portfolios to meet new objectives which would be inconsistent with the value for money objective. - The cost analysis also shows that the direct mandates are the most competitive in terms of value for money. A Pool approach that met all the participating authorities' requirements would result in higher costs initially, given it would need to be a mix of direct and property fund holdings, until a more efficient solution can be developed. - Project Pool analysis showed that increasing direct mandate size does not result in incremental costs savings. This is expanded on in Annex 1.
Local investment	17 (0% of Pool assets)	One authority holds a small illiquid local investment that it intends to hold outside the Pool. The nature of this investment means that it would be impractical and inefficient to hold it inside the Pool. The investment is a joint venture with Cambridge University and will be held until there is no longer a locally decided strategic case for retaining the investment.
Operational cash	TBC	Participating authorities need to manage their cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool. This will be reviewed by participating authorities on a regular basis.

b)

Annex 1 shows assets held permanently outside of the Pool (amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money) by the participating authority.

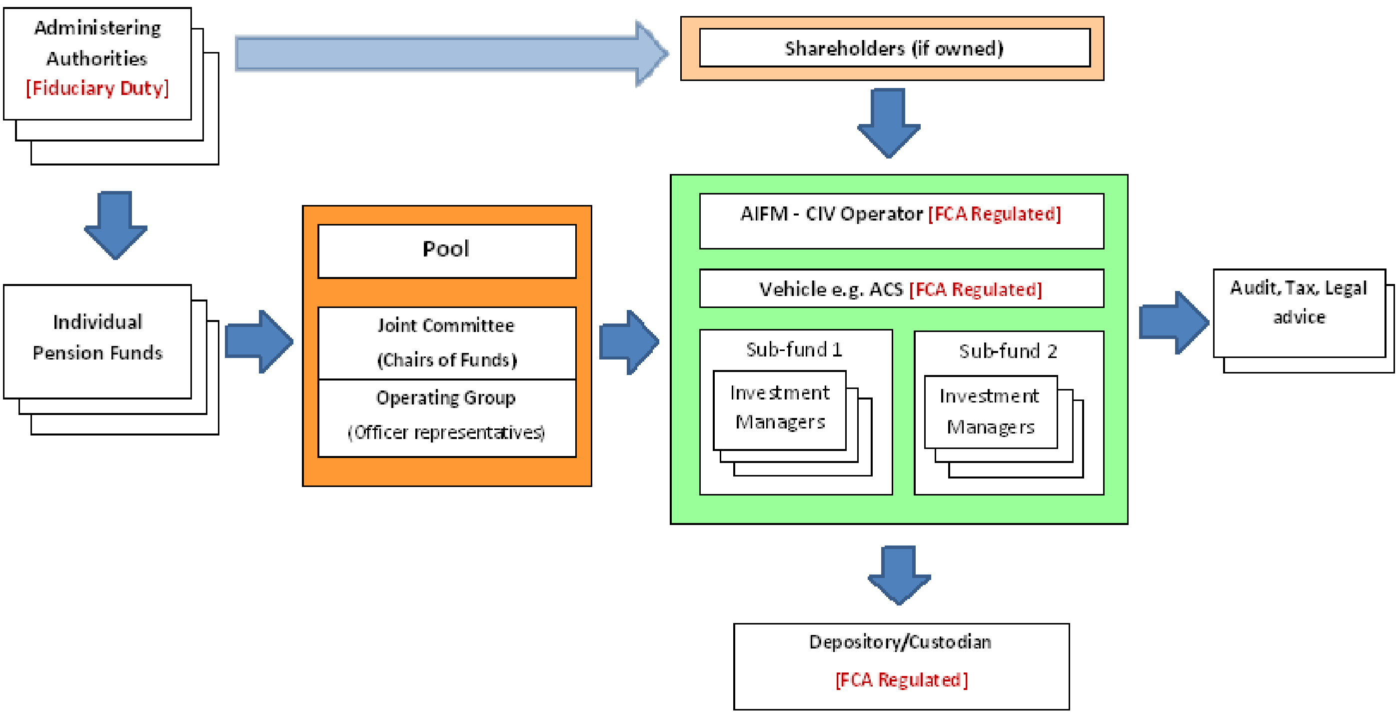
It should be noted, as set out in A1 a), that the participating funds have existing investments in illiquid closed ended vehicles. These illiquid assets will be run off over their normal investment lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. These are not shown within the Annex.

A3.	**The type of Pool including the legal structure.**
a)	Please set out the type of Pool, including legal structure, and confirm that it has been formally signed off by all participating authorities: • Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities. • Outline of tax treatment and legal position, including legal and beneficial ownership of assets. • The composition of the supervisory body.
b)	Please confirm that all participating authorities in the Pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

a)

The Pool proposes to utilise 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. This structure will be referred to as the Operator from this point, but, for the avoidance of doubt, consists of the CIV itself, the FCA authorised and regulated entity (the AIFM) and the FCA authorised and regulated depository.

This will be a separate external legal entity.



The Operator will be the legal owner of the underlying assets, creating a large single Pool. Consequently the nature of the assets owned by the participating authorities will change. Instead of having direct ownership of the underlying assets, participating authorities would hold shares or units in the CIV sub-funds and be beneficial owners. Whilst all participating authorities have agreed the type of legal entity, a decision has not yet been made about whether to rent or establish (build) an Operator.

It is critical that an informed choice is made between these options and further work will be undertaken with the intention of making a decision in September 2016. The decision will be based on ACCESS's objective and evidenced based approach, achieving long-term value for money, effective governance and the need to minimise complexity (see B4). However some initial commentary has been included in the following tables.

Rent an Operator from third party

Commentary	Considerations
The participating authorities would have investor rights as holders of shares / units in the Operator and would have a Service Agreement with the 'host' to regulate the terms on which the host would act as Operator. This removes the up-front costs associated with establishment and authorisation, but, there is a loss of control over the management of the Operator.	**Resource:** Participating authorities do not currently have the staff or capacity to run our own Operator. Paying a third party to provide a solution could help overcome this. **Market Capacity:** There is a risk of the lack of availability, experience and track record of suitable providers and the cost of employing the skilled individuals required to provide the client function. **Time:** As the Operator is an existing company, it would be responsible for the set up, but, it could still take up to one year to procure an Operator and then a further two years to build an Operator and sub-funds. **Cost:** Although set up costs will be borne by the Operator, there will still be procurement and legal costs associated with appointment. Research suggests that set up costs are around £1m (0.3 bps[1]) of Pool assets) with ongoing costs estimated at £3-5m p.a. (0.9-1.5 bps p.a.). This is covered in more detail in the response to B5. **Control:** Local and Pool decision-making and control will be via its contractual and practical relationship with the Operator. Once a contract is agreed, it will be difficult to change the service if the underlying requirements vary over time. The main recourse if the Pool is unhappy with the Operator is to replace them – which could be costly and complex and, in the interim, there is a risk that the Operator will be in a strong negotiating position. **Regulatory Capital:** No regulatory capital will be required from participating authorities but the cost of the Operator putting aside capital will be covered in their fee.

[1] Please note that throughout this submission in relation to Pool implementation and operation costs the basis point (bp) costs have been expressed in terms of the total Pool assets of £33.5b. In practice the running cost fees will likely apply only to the assets physically held and directly managed within the Pool (i.e. excluding direct property and Life Policies)

Establish (build) an operator

Commentary	Considerations
This is a significant undertaking and the amount of work, the upfront costs and the business evolution involved should not be underestimated. It does, however, give participating authorities maximum control over the direction of the Pool via their sponsorship and shareholder agreement with the Operator.	**Resource:** Participating authorities do not currently have the staff or capacity to run our own Operator; in particular, staffing the necessary senior regulated positions such as Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Risk Officer (CRO). This can be overcome through the recruitment of suitable staff to build and manage ACCESS's own Operator. **Market Capacity**: There is a risk in respect of the availability of suitable individuals and the cost of employing the skilled individuals required. **Time**: An application process with the FCA is likely to take six to nine months, plus the additional time to prepare the application. In addition time will be required to agree the detailed legal provisions around the relationship between participating authorities, appointments to positions within the Operator, consolidation plans, procurement and transition plans and negotiating contracts with new service providers. The London CIV took three years to put their current structure – which is not yet complete – in place and Friends Life took 18 months to implement a CIV. **Cost:** Research suggests that set up costs are around £1.5m - £1.7m (0.4 – 0.5 bps) but these are likely to be low due to first mover advantage. It is estimated that the costs are likely to be closer to £3-5m (0.9-1.5 bps). On-going costs are estimated at £3-5m (0.9-1.5 bps p.a.). This is covered in more detail in the response to C3. **Control:** Local and Pool decision-making and control will be via its contractual and practical relationship with the Operator. This relationship could be easier to manage and make reflective of the particular (and changing) circumstances of the participating authorities, their investments and the Pool's objective versus a rented solution. **Regulatory Capital:** Based on the current legal advice, regulatory capital of €10m will be required.

Participating authorities will invest through the most appropriate pooled vehicles for each sub-fund asset class taking into account factors such as the cost of investing (e.g. investment manager's fees, the cost of managing the vehicle and tax treatment). For example, it is assumed that:

- Actively managed listed assets will be accessed via an Authorised Contractual Scheme (ACS)
- Passive investments will be accessed via Life Policies (as the Funds in ACCESS currently use for passive investments).

Until a decision is made on the most appropriate pooled vehicle for the sub-fund asset classes, further details cannot be provided on the specifics around tax treatment.

It should be noted that whilst it is expected that the position will change, the current *Local Government Pension Scheme: Management and Investment of Funds* Regulations place an upper limit on the proportion of each Pension Fund that can be invested into a single CIV or a range of vehicles of the same description. Presently this would potentially prevent a participating authority from investing all or substantially all of their assets into a single (or limited number) of CIVs.

b)

All of the participating authorities have signed up to the legal structure set out above. Further stages of participating authority approval will be scheduled as the Pool develops.

A4.	**How the Pool will operate, the work to be carried out internally and services to be hired from outside.** Please provide a brief description of each service the Pool intends to provide and the anticipated timing of provision. • To operate in-house (for example if the Pool will have internal investment management from inception): • To procure externally (for example audit services): Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the Pool.

The services listed in the tables on the following pages are indicative at this stage and subject to alteration either during or after the implementation of a pooling arrangement.

Internal (within participating authorities and within the main Pool)
Pension Fund Committees
Set its asset allocation based on its own assets, liabilities and risk return requirements.
Agree participating authorities' individual policies in their Investment Strategy Statement (ISS), such as decisions on stock lending and Responsible Investment (RI) Policies.
Hold the Pool to account via representation on the ACCESS Joint Committee of Elected Members.
Receive periodic reports on Operator's performance against agreed Key Performance Indicators (KPIs) and Service Level Agreement (SLA).
Receive periodic reports on sub-fund values, transactions and investment performance.
Account for its underlying assets (including accountancy and performance measurement), engage with its own auditors (internal and external) and as the beneficial owner, deal with other aspects of Pension Fund administration including procuring its own legal advice as relevant.
ACCESS Joint Committee of Elected Members
Ensure that the Pool meets the needs of individual authorities e.g. decisions on sub-funds that the Operator will be required to provide to support individual authorities strategies.
Ensure the joint delivery of each of the participating authorities' individual policies in their ISS, such as decisions on stock lending and RI Policies, through the Pool's sub-fund structure.
Ensure the pooling arrangements deliver value for money.
Review delivery of services by Operator and third party providers against their contractual requirements via periodic reports on the Operator's performance against agreed KPIs and SLA.
Receive periodic reports on sub-fund investment performance.
Appoint and terminate services of the Operator, if rented or Directors if built.
Set Pool level policies e.g. sharing of costs.
Procure advice on behalf of the Pool.
Provide direction for the ACCESS Officer Operating Group.
ACCESS Officer Operating Group
Provide information and advice to the ACCESS Joint Committee of Elected Members.
Receive periodic reports on sub-fund values, transactions and investment performance and monitor.
Review delivery of services by Operator and third party providers against their contractual requirements via periodic reports on the Operator's performance against agreed KPIs and SLA.
Fulfill the required client function, with respect to the relationship between the Operator and the participating authorities as investors in the underlying pooled investments, including ensuring that nominated individuals are identified to perform the required role.
Procure advice on behalf of the Pool.

External Functions

Operator (whether built or rented)

Provide investment management of the sub-funds in the CIV. These would, in turn, be delegated to external investment managers, but, the Operator will be responsible for selecting and contracting with managers on behalf of the authorities participating in the Pool.

Provide middle office functions, including trade processing, portfolio accounting, pricing and valuation, corporate actions and proxy voting, derivative servicing, data management and client (participating authority) and regulatory reporting.

Maintain separate risk and compliance functions. These could be outsourced to a compliance firm, however, the Operator will still hold overall responsibility to ensure compliance and ultimate responsibility in relation risk management.

Provide back office functions, including settlement management and reconciliation and income and tax reclaims.

Set up, administer and operate the sub-funds on a day-to-day basis, including obtaining the necessary FCA authorisations, creating and maintaining the required documents, appointment and oversight of auditors, obtaining any required legal or tax advice, the execution of relevant documents or contracts and regulatory compliance monitoring.

Put in place and manage the contractual relationships in order to fulfil the regulatory requirements of the Pool and underling investors, including appointing a depositary and putting in place custody and audit functions.

Be responsible for both the regulatory reporting that this role entails and for providing regular reporting on its key functions and responsibilities to the participating authorities.

Please note: If participating authorities choose to build their own Operator it may outsource some of these services. If participating authorities choose to rent an Operator, the host may outsource some of these services. In both scenarios, the Operator will still be required to demonstrate to the FCA that it has the systems and controls in place to effectively oversee its delegates.

External Investment Managers

As discretionary managers, the external investment managers will be responsible for the day-to-day decisions about the composition of the portfolios and entering into contracts with principals, intermediaries and other market participants.

A5. The timetable for establishing the Pool and moving assets into the Pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.

a) Please provide assurance that the structure summarised in A3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats). If 'no' please state the expected date the structure will be in place and attach an ANNEX detailing the reasons for not being able to have the structure in place by 01.04.2018.

b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the Pool at the end of each 3-year period starting from 01.4.2018.

a)

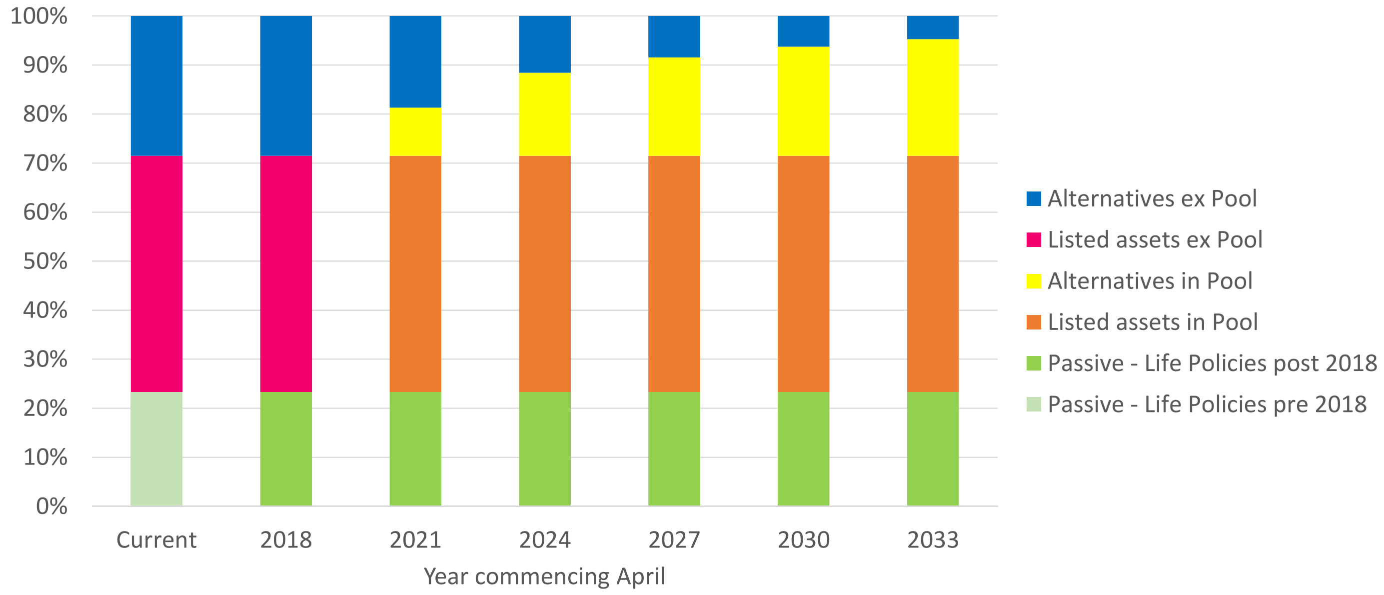
The intended approach to establishing the Pool, whether via a build or rent solution, is set out in the table below. This is indicative.

	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	September 2016
Government agreement of ACCESS proposal	October 2016
Commence build or procurement of the Operator	October 2016
Finalise plan for initial manager consolidation	March 2017
Appoint Operator (if rented)	June 2017
Procure passive manager(s) using national framework	First half 2017
Agree Pool terms for passive assets	Mid 2017
Contracts and SLAs agreed with Operator	October 2017
FCA Authorisation granted for sub-funds	October 2017
Formulate plan for transition of liquid assets into sub-funds (including coordination with other Pools)	December 2017
Governance arrangements established	December 2017
Custody accounts set up	January 2018

	Timeline
Liquid assets manager selection completed	January 2018
Complete establishment of Operator (rented or built)	February 2018
Liquid asset transfer commences	April 2018

b)

The indicative timetable for transitioning assets into the Pool is shown in the chart below:



The table below reflects the following movements into the Pool:

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

The intention of the Pool would be to employ a specialist transition manager to assist in the implementation of any transition into the Pool. As part of this service, the manager will be asked to prepare pre and post trade analysis that will allow the Pool to compare actual and estimated costs and also compare these with the initial estimates provided in this submission.

The Pool and participating authorities will publish information in respect of progress against the indicative (or revised) timetable, when appropriate, on a publicly accessible website, however information around transition is commercially sensitive and this must be considered in any public updates.

c)

The intended approach to transitioning each of the respective asset classes is set out in the table below. The speed at which assets move into the Pool is difficult to estimate and will depend greatly on the timetable for implementing the Pool investment options, participating authorities allocations to underlying asset classes and market conditions.

Asset	Value	Assumed timetable for transition to Pool
Passive - Life Policies	£7.8b	Part of Pool assets, but, existing holdings in Life Policies maintained. Fees negotiated at Pool level (e.g. via national framework). Work is already in progress to achieve this and expected to be completed with assets on Pool terms and part of Pool governance prior to April 2018.
Listed assets (equity, fixed income, balanced, diversified growth funds (DGF) and multi asset)	£20.2b	Pool solution to be developed. Intention to reduce the number of managers for all listed equity, fixed income and multi-asset to provide economies of scale with the aim of transferring assets to Pool by 2021.
Alternatives (private equity, timberland, infrastructure)	£1.7b	Pool solution to be developed. Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. Assumes new allocations made through Pool by 2021. In practice, commitments may continue for a period under existing arrangements, depending on the speed at which a Pool solution can be agreed.
Alternatives (indirect property)	£1.9b	Pool solution to be developed. Plan for indirect assets transitioned to Pool from 2021 to 2030.

From a risk and cost management perspective, the key areas of focus for transition purposes are the listed equity and fixed income assets.

To address this, the Pool will carefully plan and co-ordinate transition activity and engage the services of a specialist transition manager(s) to ensure that costs and risk is minimised as far as is possible.

The scale of the transition activity, within the Pool specifically and across the Local Government Pension Scheme (LGPS) generally, is unprecedented. It will, therefore, be important for Government and the Pools to co-ordinate the activity, potentially via the Cross Pool Collaboration group, to ensure the actual transition costs do not wipe out years of potential fee savings. **Transition costs have the potential to push out the breakeven point by which the Pool savings outweigh the costs of developing, running and implementing the solution. This must also be done without de-stabilising the market generally.**

The table below sets out some indicative costs of transitioning the respective assets classes moving into the Pool.

Asset	Transition Manager commission (bps)	Spread cost (half bid/ ask spread) (bps)	Tax (bps)	Market Impact / Opportunity cost (bps)	Total (bps)
Listed assets					
Large cap equity	1-3	5-7	4-8	15-35	24-53
Emerging Market equity	3-8	15	5-30	50-100	73-153
Government fixed income	2-10	2-40	0	10-60	14-110
Corporate fixed income	4-15	3-45	0	10-180	15-240
Alternatives					
Property (indirect)	?	150-700 (full spread)	0 for UK	?	150-700

Source: Goldman Sachs/Hymans Robertson

d)

See response to A5 b).

Criterion B: Strong governance and decision-making

B1. The governance structure for their Pool, including the accountability between the Pool and elected councillors and how external scrutiny will be used.

a) Please briefly describe the mechanisms within the Pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.

b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the Pool (including the Pensions Committee and local Pension Board).

a)

The LGPS Regulations provide that each of the participating authorities must maintain a Pension Fund within the LGPS and that the LGPS Administering Authority is responsible for managing and administering its Fund in relation to any person for whom it is the Administering Authority. Whatever arrangements are made to discharge the statutory responsibilities of the Administering Authority, each Administering Authority retains ultimate responsibility for the fulfilment of its statutory duties.

Consistent with the above, the Pool's overall objective is to enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders by providing the range of asset classes necessary to enable those authorities to execute their locally decided investment strategies, whilst enabling them to achieve benefits of pooling investments. These objectives will drive the governance structure adopted by ACCESS.

As set out previously in this response, the Pool will be governed by the ACCESS Joint Committee comprised of Elected Members under s.101 of the Local Government Act 1972. Each participating authority will select one representative, thereby ensuring that all members are represented in the governance of the Pool and can express their views. The detailed mechanisms for voting will be agreed by participating authorities in due course. The terms of reference of the Joint Committee would be set out in a Memorandum of Understanding (MoU) (or other similar document), whereby they would deal with issues such as membership, joining, withdrawal and the principles of the Joint Committee.

In line with ACCESS's principles, set out in the response to question B4, participating authorities will have an equitable voice in governance. It is intended that decision-making will be objective and evidence based and, therefore, the Joint Committee will work by consensus whenever possible and avoid the need for decisions to be voted on. The detailed mechanisms for voting will be agreed by participating authorities in due course and will be documented in the MoU (or other similar document).

Support, which will be formalised through an Operating Group for the Pool, will be provided to the elected members from each Authorities' s.151 Officer and their Pension Fund's Officers. Again, each participating authority will be represented by one officer, to ensure that the group considers the requirements of all members and the same guiding principles, as set out above, will be applied. The detailed mechanisms for voting will be agreed by participating authorities in due course and will be documented in the MoU (or other similar document).

Should the Pool build its own Operator:

- A Shareholder Board will also be required to oversee the running of the Operator. The participating authorities will select representatives to sit on the Board and execute their rights to ensure the good governance of the Operator.
- The Board of Directors of the Operator must hold meetings which review the extent to which the pooled vehicles are being run in line with their stated objectives and regulatory requirements and interrogate data and reports from any outsourced providers.

Although the Shareholder Board and Board of Directors would exist within a rental structure, they would not be Pool specific and, therefore, they would not form part of the Pool's governance structure.

In both scenarios, Operators are also expected to retain oversight of investment management and risk management functions.

b)

As set out above, the ACCESS Joint Committee of Elected Members will be responsible for holding the Operator to account. In doing so, they will be supported by the Officer Operating Group. Both groups may be supported by external experts and advisers on a co-opted, retained or as-required basis.

In turn, each participating authority's Elected Member and Officer representatives on the Joint Committee and Operating Group will be responsible for reporting back to their participating authority to ensure local scrutiny. Each participating authority will determine its own reporting arrangements to its Pension Committee, which could include its local Pension Board and other committees as agreed.

As a separate legal entity, the Operator will be responsible for ensuring that it has the appropriate control framework including the appointment of auditors and the use of external experts, such as non-executive Directors, independent advisors and consultants. This will need to be determined by the Operator as part of its creation or on-boarding to an existing supplier.

B2. The mechanisms by which authorities can hold the Pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.

a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, Pool and any supervisory body.

b) If available please include a draft of the agreement between any supervisory body and the Pool as an ANNEX.

c) Please describe briefly how that agreement will ensure that the supervisory body can hold the Pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

a)

As the legal entity responsible for its Pension Fund, each participating authority will be responsible for contracting with the Operator, which will be in the form of a Sponsorship Agreement.

The Sponsorship Agreement, which will define the responsibilities of each party, is a legal contract between the participating authority and the Operator.

If the participating authorities build and own the Operator, they will have a Shareholder Agreement, which will specify the shareholders right to appoint and dismiss Directors and management decisions that must be agreed by the Directors, such as the operating budget and any significant change to the company's core activities (e.g. developing an internal investment management function).

b)

Not yet available.

c)

For the purpose of the submission, a supervisory body is considered to be the Pool's governance structure (i.e. the ACCESS Joint Committee of Elected Members and the ACCESS Officer Operating Group).

On behalf of the participating authorities the Joint Committee will be responsible for the selection of the Operator and, as such, have the ultimate sanction of being able to change the Operator of the Pool.

As a regulated entity, the Operator will have to fulfill regulatory requirements for reporting to investors on the performance of investments in the Pool, which will provide individual Pension Funds with the necessary visibility of the performance of their investments. The Pool would receive reports from their Operator as specified in a Service Level Agreement.

The Officer Operating Group will review and monitor the service provided by the Operator and the extent to which they are meeting the requirements as set out in the Service Level Agreement.

B3. Decision-making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the Pool level.

a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

b) Please list the decisions to be made at the Pool level and the rationale underpinning this.

c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

a)

Individual participating authorities will retain their fiduciary responsibility for the management of their Pension Fund and the participating authorities will continue to be responsible for setting their investment objectives, risk assessments and the asset allocation.

Participating authorities will be responsible for governance decisions associated with their investments, such as decisions on stock lending and their Responsible Investment (RI) Policies, which will be set as part of each Pension Fund's Investment Strategy Statement (ISS).

The ACCESS Joint Committee of Elected Members will then be responsible for requesting the relevant sub-funds from the Operator.

The Operator will then be responsible for sub-fund implementation and (not withstanding comments made previously) investment review in line with their regulatory responsibilities.

b)

Please see the response to A4.

c)

Please see the response to A4.

For the purpose of the submission, a supervisory body is considered to be the Pools governance structure (i.e. the ACCESS Joint Committee of Elected Members and the ACCESS Officer Operating Group).

B4.	**The shared objectives for the Pool and any policies that are to be agreed between participants.**
a)	Please set out below the shared objectives for the Pool.
b)	Please list and briefly describe any policies that will or have been agreed between the participating authorities.
c)	If available please attach as an ANNEX any draft or agreed policies already in place.

a)

The participating authorities have a clear set of objectives and principles, agreed at the start of the collaboration and set out below. These 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 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 ACCESS authorities have established the following guiding 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.

b)

A Memorandum of Understanding (MoU) has been agreed and put in place by the participating authorities. The main purpose of this has been to facilitate the joint working to date on the development of the Pool including sharing of knowledge and resources and commissioning and meeting external costs incurred during the initial stages of the pooling process. This has been appended (Annex 2). As part of the next stage of this project, an updated or revised MoU (or other similar document) will be required to further progress the pooling work, in addition to a number of other policies including:

- Constitutional documentation on the structure and working of the Joint Committee and Operating Groups
- Pool approach to Responsible Investment (RI) and stewardship to the extent to which it will, as far as practically possible, support local Pension Fund RI policies as per the response to B6

The participating authorities will work together to develop the policies required to ensure the efficient running of the Pool.

c)

A copy of the MoU is attached as Annex 2.

B5. The resources allocated to the running of the Pool, including the governance budget, the number of staff needed and the skills and expertise required.

a) Please provide an estimate of the operating costs of the Pool (including governance and regulatory capital), split between implementation and on-going. Please list any assumptions made to arrive at that estimate. Please include details of where new costs are offset by reduced existing costs.

- Implementation costs £
- On-going costs £
- Assumptions
- Comments

b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and on-going. Please state any assumptions made to arrive at that estimate.

- Assumptions
- Comments

a)

Estimated costs of the Pool structure are as follows:

Implementation costs (excluding asset transition costs)

If the Pool decides to build an Operator, it is estimated that it will cost between £3-5m (0.9-1.5 bps) plus regulatory capital of €10m to implement. The regulatory capital will need to be met by the participating authorities. This is something that Government may be able to discuss with the FCA to avoid inappropriate and excessive capital requirements for LGPS Pools.

If the Pool decides to rent an Operator, it is estimated that it will cost in excess of £1m (0.3 bps) to implement. There will not be a direct regulatory capital requirements – although the costs of providing such capital will be reflected in on-going costs of renting the Operator.

On-going costs

Irrespective of whether the Pool decides to build or rent an Operator, it is estimated that it will cost between £3-5m p.a. (0.9-1.5 bps p.a.) to run, in short term[2]. The build and own option may cost less in the long term.

This estimate excludes custody, depositary and cost of regulatory capital and external investment manager fees.

Offset of existing costs:

It is considered that there will be very limited ability to offset the costs associated with the structure and pooling arrangements against existing costs.

- Some costs will simply transfer from participating authorities to the Pool (e.g. custody of vast majority of assets via the Pool) and, therefore, savings will be limited.

[2] Based on total Pool's assets including Life Policies. This represents circa 1.2-2bps of assets excluding c£8bn of passive investment in Life Policies.

- Some costs will be incurred once at Pool level, rather than multiple times by participating authorities, such as manager searches (for example, five searches a year at circa £25k would equate to £125k per annum).
- In some cases there may be additional costs for individual Pension Funds as a result of the Pooling arrangement (e.g. client function).

Assumptions
Detailed assumptions underlying the figures are outlined in the response to C4.

Implementation cost estimates

	Build	Rent
Time cost of staff at participating authorities supporting implementation	Including oversight of build of Operator and establishment of non-Operator elements of the Pool structure including Joint Governance Committee of Elected Members. **£330k**	Including senior officer support through implementation phase including establishing non-Operator elements of Pool governance and specifying third party requirements. **£150k**
Hiring professional staff for the Operator	In advance of launch date to obtain authorisation and establish operations, processes and governance. **£900k**	N/A **£0k**
Project Management	To manage project to tight timeframes up to 2018. **£300-450k**	To manage project to tight timeframes up to 2018. **£300k**
Legal Advice	On establishment, contracts and authorisation process etc. **£1,000k**	On procurement and contracts. **£200k**
Other External Advisory	Various external expertise required including technical investment advice, asset transition and governance. **£800k**	Various external expertise required including procurement, technical investment advice, asset transition and governance. **£375k**
Premises, IT and other non-staff costs	Costs assume that the majority of IT infrastructure and systems (risk measurement and monitoring) are procured. Building required systems could significantly increase the implementation costs. Excludes allowance for any IT interfaces with third parties. **£500k**	Potential cost of IT interfaces with third party suppliers not yet estimated.
Total (excluding transition costs)	**£3.9m (range £3-5m) (0.9-1.5 bps)**	**£1.0m (0.3 bps) (0.4 bps)**

Comments

1 **Regulatory capital:** Government has given feedback that the FCA policymakers may be willing to relax regulatory capital requirements given the 'closed' nature of the client / operator relationship – this is not at all like a retail investor situation where individual investors need protection. The Pool would welcome government support in making the case to FCA.

2 **Rent / build decision:** The Pool is currently undertaking detailed analysis and due diligence of the options. A recommendation for decision by members will be made in September 2016, as set out in A5.

3 **Materiality:** The payback period is more sensitive to potential asset transition costs and estimated investment manager fee savings than it is to the differing implementation costs according to whether the Pool rents or builds and owns the Operator. The payback period is also fairly insensitive to whether the implementation and running costs are nearer the lower or upper end of the estimated ranges quoted.

4 Please note that all the figures set out in this section and in response to C4 are indicative estimates and subject to change. In practice, some costs may be understated depending on the solution that is adopted.

b)

Details will be available following further consideration of the rent or build and own decision.

It is understood that the London CIV is expecting to run with circa 12 professional staff initially, but, potentially doubling within a few years. This implies staff costs of circa £2.4m per annum (if an annual salary range of £50-£150k is assumed). In addition, there will be a) non-staff costs (premises, IT); b) some third party supplier costs; and c) the non-Operator running costs (e.g. Pool governance and officer responsibilities out-with the Operator acting for the client side of the relationship); d) cost of providing regulatory capital. The Pool would expect total costs to exceed £3m per annum. This information has been used to corroborate estimates given in B5 a).

B6. How any environmental, social and corporate governance policies will be handled by the Pool. How the authorities will act as responsible, long-term investors through the Pool, including how the Pool will determine and enact stewardship responsibilities.

a) Please confirm there will be a written responsible investment policy at the Pool level in place by 01.4.2018.

- Confirmed YES/NO
- If no please attach an ANNEX setting out how the Pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.

a)

As set out in B4, one of the objectives of the Pool will be to enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible. Part of this responsibility will be to incorporate each participating authority's own views on Responsible Investment (RI) and to act as good asset owners through their stewardship approach. The Pool will agree and put in place a RI policy with the aim of allowing each individual authority to implement their own locally agreed approach to RI issues.

The Pool participates in the RI Cross Pool Group, developing understanding and sharing knowledge. The Cross Pool Group will develop resources to enable a further understanding of the financial implications of environmental, social and governance issues within the wider context of RI.

B7. How the net performance of each asset class will be reported publicly by the Pool, to encourage the sharing of data and best practice.

a) Please confirm that the Pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

- Confirmed YES/NO
- If no please attach an ANNEX setting out how the Pool will report publically on its performance.

a)

The Pool and participating authorities will publish annual net performance in each asset class on a publicly accessible website, including fees and net performance in each listed asset class compared to a passive index, where the relevant index exists, or a suitable comparator index.

Once established, it is the intent of the participating authorities and the Pool to continue to use suitably qualified and independent third parties to allow clear and transparent reporting and scrutiny of the investment arrangements.

B8.	**The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the Pool.**
a)	Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the Pool.

a)

As part of the work in preparation for this submission, the participating authorities commissioned an independent third party (CEM Benchmarking) to carry out cost analysis and benchmarking of each participating authority's investment arrangements and the aggregate cost information at Pool level.

Once established, it is the intention of the participating authorities and the Pool to continue to apply benchmarking comparisons and analysis, using suitably qualified and independent third parties, to allow clear and transparent reporting and scrutiny of the investment arrangements which will inform decision making and allow efficient reporting against the set criteria on which the pooling arrangements are to be measured.

Criterion C: Reduced costs and excellent value for money

C1. A fully transparent assessment of investment costs and fees as at 31 March 2013.

a) Please state the total investment costs and fees for each of the authorities in the Pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.

b) Please state the total investment costs and fees for each of the authorities in the Pool as at 31.03.2013 on a fully transparent basis.

c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.

a)

The participating authorities already provide transparent cost information as part of the regular accounting and reporting, in line with Chartered Institute of Public Finance and Accounting (CIPFA) guidance and which are subject to independent external audit.

In order to obtain consistent and comparable cost information, each authority has provided cost information to an independent third party (CEM Benchmarking) and these costs are provided under C1 b) below.

b)

The total combined investment costs for all eleven participating authorities in the Pool on a consistent basis are set out in the table below. These numbers have been prepared in conjunction with an independent third party (CEM Benchmarking), thus ensuring consistent and comparable cost information as far as is possible.

Where performance related fees apply, fees reflect performance of underlying mandates. In those cases, the added value generated by the Pension Funds' managers may result in higher fees.

It should also be noted that the change in costs from 2013 to 2015 also reflect the growth in asset values over the period (fee base of £27bn in 2013 and £33bn in 2015).

Total investment costs for the year ending 31/3/2013 were £131.1m on assets of £27bn.

Source of costs	Costs (£000s)	Costs (bps)
Asset management	122,999	45.6
Oversight, custody and other	8,069	3.0
Total	131,068	48.6

According to CEM Benchmarking analysis, the current costs of the ACCESS pool compare favourably to UK and international peer group funds, reflecting the effectiveness of historic public sector procurement.

c)

Assumptions

- Total costs exclude carry/performance fees for infrastructure, natural resources and private equity. Performance fees are included for the public market asset classes.
- Other costs do not include non-investment costs, such as pension administration. This is the standard approach used by CEM Benchmarking and has been consistently applied across all LGPS authorities in their July submissions.
- For some assets classes, there are underlying fee layers where actual information was not available and default assumptions have been used, based on CEM Benchmarking's database of costs. For example, for diversified Private Equity Fund of Funds, a default for management fees paid to the 'bottom layer' underlying managers of 165 bps (on amount fees are based on) was used.
- The fees on listed assets are calculated on assets under management while fees for some alternatives are based on commitment.

C2.	**A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2015 for comparison, and how these will be reduced over time.**
a)	Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.
b)	Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.
c)	Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.

a)

The authorities provide transparent cost information as part of the regular accounting and reporting in line with CIPFA guidance which is subject to independent external audit.

In order to obtain consistent and comparable cost information, each authority has provided cost information to an independent third party (CEM Benchmarking) and these costs are provided under C2 b) below.

b)

The total combined investment costs for all eleven participating authorities in the Pool on a consistent basis are set out in the table below. These numbers have been prepared in conjunction with an independent third party (CEM Benchmarking) to ensure consistent and comparable cost information as far as is possible.

Where performance related fees apply, fees reflect performance of underlying mandates. In those cases, the added value generated by the Pension Funds' managers may result in higher fees.

It should also be noted that the change in costs from 2013 to 2015 also reflects the growth in asset values over the period (fee base of £27bn in 2013 and £33bn in 2015).

Total investment costs for the year ending 31/3/2015 were, therefore, £166.5m on assets of £33bn.

Source of costs	Costs (£000s)	Costs (bps)
Asset management	158,296	47.8
Oversight, custody and other	8,252	2.5
Total	166,548	50.3

According to CEM Benchmarking analysis, the current costs of the ACCESS pool compare favourably to UK and international peer group funds, reflecting the effectiveness of historic public sector procurement.

c)

Please see C1 c).

C3.	**A detailed estimate of savings over the next 15 years.**
a)	Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the Pool at the end of each 3-year period starting from 01.04.2018. Total value of savings (per annum) estimated to be achieved by each of the authorities in the Pool as at • 31.3.2021: £ • 31.3.2024: £ • 31.3.2027: £ • 31.3.2030: £ • 31.3.2033: £
b)	Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).
c)	Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.

a)

The estimated annual savings to be achieved by the participating authorities at the end of each three year period starting from 01/04/2018 are set out in the table below.

Savings are based on investment management fees and do not include the impact on operational costs associated with the new pooling structure.

The costs savings should be considered in the context of net of fees performance as a 10bps (0.1% of assets) difference in performance on a £33.5b asset pool would outweigh any potential cost saving. Using the best available investment managers to deliver strong investment performance is therefore potentially even more important.

There will be significant differences between participating authorities and Pools in the savings proposed and achieved depending on where they start from (asset allocation, prevailing fees, current approach to accessing different types of assets, etc.).

Savings have been calculated on two bases, as shown in the table below. Savings 1 assumes a saving on property assets based on a new managed account structure. Savings 2 assumes a more significant saving on property from moving to a more directly invested portfolio.

Date (by)	Estimated savings 1 (£m)	Estimated savings 2 (£m)
31.3.2021	13.6	13.6
31.3.2024	17.9	19.9
31.3.2027	21.0	24.3
31.3.2030	23.7	27.8
31.3.2033	26.5	30.6
	Estimated savings 1 (bps)	**Estimated savings 2 (bps)**
31.03.2033	8	9

b)

Assumptions

- Asset allocation remains unchanged.
- No asset growth has been applied. In the context of Project POOL when allowing for future investment growth of 3-5% per annum, by year ten (2028) the estimated annual savings will be equivalent to £40-50m which represents a significant proportion of the total year ten annual savings of £200-300m across all Pools, estimated by Project POOL.
- In deriving these savings, the starting point was to compare the eventual savings that the new Pool solution might achieve for each underlying asset class, once fully implemented (assumed by 2033). These have been mapped back to allow for the gradual transition of assets into the Pool, as shown in the response to A5 b) and assume the savings apply from the point the assets are invested through the Pool. In practice, some savings may only apply once the weight of assets in the Pool has been achieved.
- Whilst the savings on listed assets look lower than those on alternative assets, given the relative size of assets under management, this analysis is consistent with the conclusions drawn by Hymans Robertson as part of their *LGPS Structure Analysis* report to the Department for Communities and Local Government (DCLG). This analysis showed that one of the greatest potential for cost savings was through less expensive means of investing in alternative asset classes.[3] This was corroborated by the findings of Project POOL.
- Current costs are based on CEM Benchmarking data which reflects the average value of assets over the year from April 2014 to April 2015, while the asset figure is the value at April 2015.
- For consistency with CEM Benchmarking values the fees for some illiquid assets are based on commitments rather than invested assets.

---

3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

- These savings need to be offset against the additional costs of asset transition, establishment and running the Pool which are covered in more detail in the response to C4.
- It is assumed that the cost savings that can be negotiated will be the same on both the potential rent or build options.
- The table below shows the savings per asset class (annual run rate savings by 2033). Cash is not included in the figures below.

Asset class	Assets on which current fee applies (£m)	Current cost (bps)	Estimated savings (bps)	Estimated Pool cost (bps)	Annual Saving (£m)	Rationale
Passive equity	5,199	8.9	7.4	1.5	3.8	Based on indicative fee levels procured by other pools.
Passive fixed income	2,293	3.8	2.3	1.5	0.5	Based on indicative fee levels procured by other pools.
Active equity	12,646	31.7	5	26.7	6.3	Current allocation has competitive fee base. Based on reduced number of mandates and increased manager mandate sizes of >£1bn. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.
Active fixed income – traditional	2,698	24.1	5	19.1	1.3	Current allocation has low fee base. Based on reduced number of mandates and increased manager mandate sizes. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.
Active fixed income –non traditional	701	43	0	43	0	Limited potential saving given mix of current strategies and existing fee arrangements.
Balanced	2,254	-	0	-	0	No savings assumed.

Asset class	Assets on which current fee applies (£m)	Current cost (bps)	Estimated savings (bps)	Estimated Pool cost (bps)	Annual Saving (£m)	Rationale
DGF / multi-asset	1,712	~ 60 DGF	5 on DGF	55	0.9	Based on reduced number of mandates and increased manager mandate sizes. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.
Property (direct)	1,595	32.5	0	32.5	0	Current allocation remains outside the Pool - no savings assumed.
Savings 1 Property (directly managed account available to ACCESS pool funds)	1,380	112.8	32.8	80	4.5	Assume directly managed account containing pooled funds, tailored to meet needs of participating authorities. Removes fund of fund (FoF) fee layer and results in lower overall fee including underlying. Does not assume full move to direct fee levels.
Savings 2 Property (directly invested portfolio available to ACCESS Pool Pension Funds)	1,380	112.8	62.8	50	8.6	Assume move away from a funds approach to a directly invested property portfolio. Reflects the scale of the property assets in the pool at over £1bn.
Private Equity	1,794	214	39	175	7.1	Assume directly managed account containing pooled funds, tailored to meet needs of participating authorities.
Hedge Funds	648	177	5	172	0.3	Based on scale and negotiations. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.

Asset class	Assets on which current fee applies (£m)	Current cost (bps)	Estimated savings (bps)	Estimated Pool cost (bps)	Annual Saving (£m)	Rationale
Infrastructure	517	110	35	75	1.8	Based on national platforms or equivalent. Supported by indicative quotes provided by managers in Project POOL and existing platforms such as Pension Infrastructure Platform (PIP).
Other	87	0.54	-	0.54	-	Small allocation with limited scope for savings.
Total Savings 1 **Total Savings 2**	**33,524** **33,524**				**26.5** **30.6**	**Excludes impact on other costs such as structural impact and governance.**

Source: CEM Benchmarking/ Hymans Robertson/ Project POOL

C4.	**A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.**
a)	Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).
b)	Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).
c)	Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.
d)	Please explain how the implementation costs will be met by the participating authorities.

a)

Implementation Costs

Implementation costs (excluding transition costs) for a build Operator are set out in the table on the following page.

*The costs shown for 2018 are part year costs reflecting the change from 'implementation' to 'running' costs with the exception of External Advisory costs on matters such as transition of assets which could continue for a number of years beyond 2018.

	2016	2017	2018*	2019	2020	2021	2022	Total
Time cost of staff at participating authorities	£123.8k	£165k	£41.3k					**£330k**
Professional staff for the Operator	£337.5k	£450k	£112.5k					**£900k**
Project Management	£140.6k	£187.50k	£46.88k					**£375k (mid-point)**
Legal Advice	£250k	£500k	£250k					**£1,000k**
Other External Advisory (tax, transition, etc.)	£150k	£250k	£150k	£150k	£100k			**£800k**
Premises, IT and other non-staff costs	Nil	£400k	£100k					**£500k**
Total (excluding transition costs)	**£1,002k**	**£1,952k**	**£701k**	**£150k**	**£100k**			**£3,905k**

Transition Costs

The costs related to the transition of assets into the Pool are set out in the following tables.

Two potential cost estimates have been modelled that reflect different levels of required trading relating to the potential overlap or retention of existing holdings on moving to the new target structure.

Depending on the proportion of assets traded (assumed to be between 30% and 70%), total estimated transition costs for liquid assets are between £17.5m (8bps) and £40.8m (19bps) of the value of assets being traded.

Transition Costs 1 estimate – lower (30% trading)

Asset class	UK Equity	Global equity	Fixed income – non traditional	Fixed income – traditional	Total
Value subject to transition (Pool assets)	£3.4bn	£8.7bn	£1.2bn	£2.8bn	**£16.1bn**
Number of managers	7	18	4	11	
Number of strategies	14	35	9	19	
Target number of managers	4	8	3	3	
Value of assets requiring transition	£2,429m	£6,711m	£800m	£2,358m	**£12,298m**
% of assets requiring trading	30%	30%	30%	30%	**30%**
Transition costs (bps)					
- Transition manager commission	2.0	2.5	7.4	7.4	
- Spread cost	6.0	7.4	22.2	22.2	
- Tax	25.0*	7.7	0	0	
- Total cost ex market impact	33.0	17.6	29.6	29.6	
Transition cost excluding market impact	**£4.8m**	**£7.1m**	**£1.4m**	**£4.2m**	**£17.5m**

* Assumes no stamp duty on assets transferring into Pool but still applies to traded asset purchases

Transition Costs 2 estimate – higher (70% trading)

Asset class	UK Equity	Global equity	Fixed income – non traditional	Fixed income – traditional	Total
Value subject to transition (Pool assets)	£3.4bn	£8.7bn	£1.2bn	£2.8bn	**£16.1bn**
Number of managers	7	18	4	11	
Number of strategies	14	35	9	19	
Target number of managers	4	8	3	3	
Value of assets requiring transition	£2,429m	£6,711m	£800m	£2,358m	**£12,298m**
% of assets requiring trading	70%	70%	70%	70%	**70%**
Transition costs (bps)					
- Transition manager commission	2.0	2.5	7.4	7.4	
- Spread cost	6.0	7.4	22.2	22.2	
- Tax	25.0*	7.7	0	0	
- Total cost ex market impact	33.0	17.6	29.6	29.6	
Transition cost excluding market impact	**£11.2m**	**£16.5m**	**£3.3m**	**£9.8m**	**£40.8m**

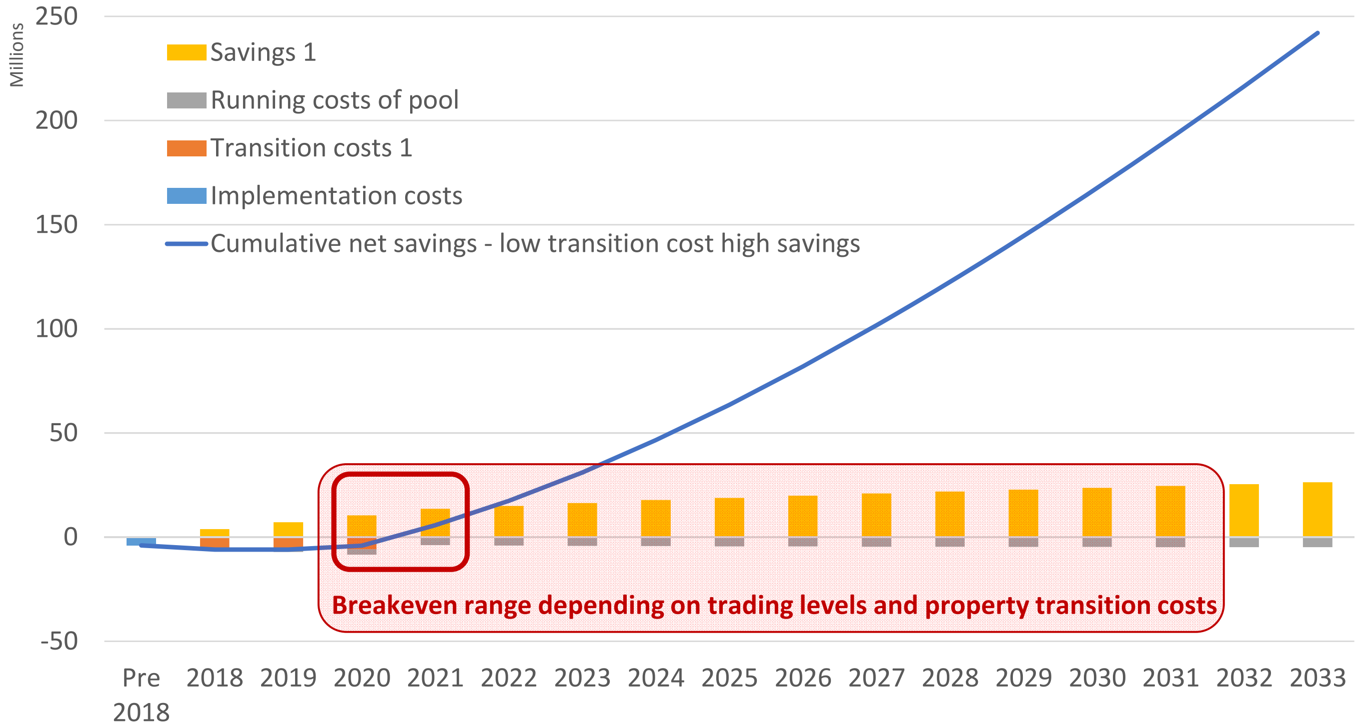
* Assumes no stamp duty on assets transferring into pool but still applies to traded asset purchases

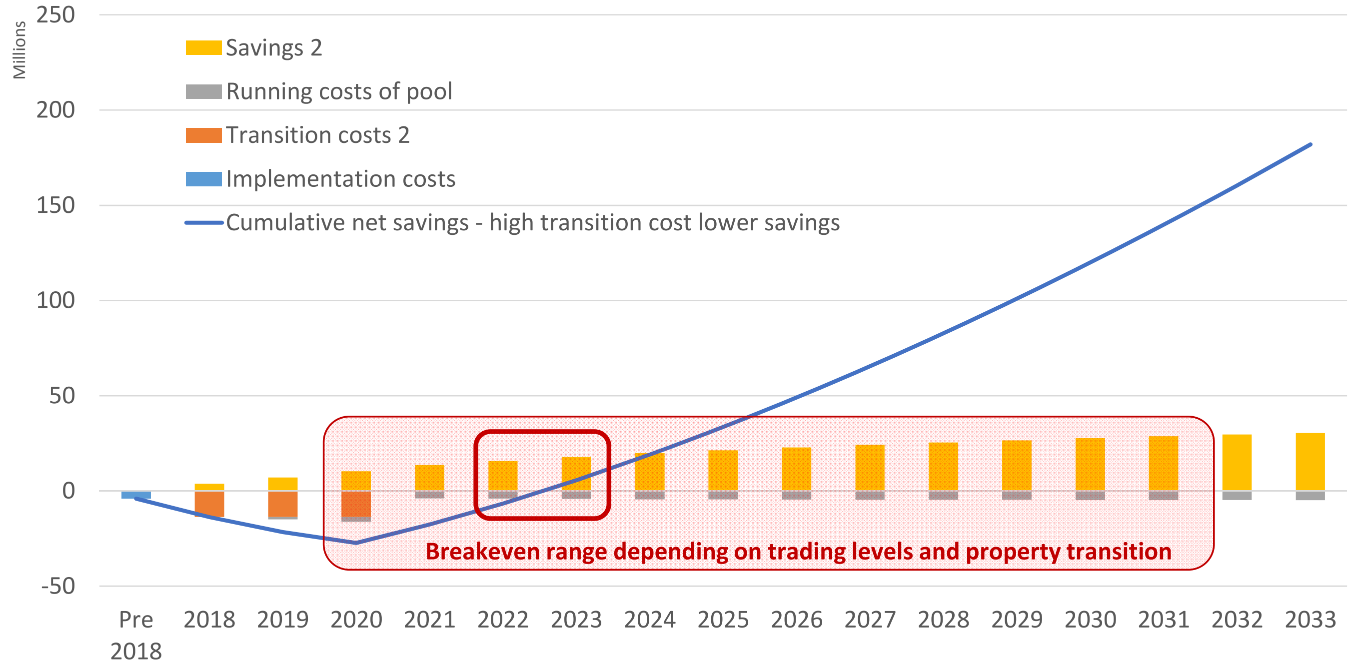
Break Even

The timing of these costs will reflect the timing of the new investment options being available within the Pool and building a full transition plan to manage the risk and costs related to the transition. As indicated in the response to A5, the current proposal is that the listed assets requiring transition would be moved into the Pool between 2018 and 2021 and, therefore, costs would be incurred over this period.

The breakeven point for the savings of the Pool exceeding the expected costs is between 2021 and 2024 with the breakdown and timing of the relevant costs being shown in the charts below.

Depending on the agreed Pool solution, additional costs from transitioning property assets could push the breakeven point out by 2-8 years. This has been commented on as part of the assumptions. Additional costs related to market impact and implementation shortfall could have a similar impact on costs and the savings being achieved.


Millions
250
200
150
100
50
0
-50
Savings 1
Running costs of pool
Transition costs 1
Implementation costs
Cumulative net savings - low transition cost high savings
Breakeven range depending on trading levels and property transition costs
Pre 2018
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033


Millions
250
200
150
100
50
0
-50
Savings 2
Running costs of pool
Transition costs 2
Implementation costs
Cumulative net savings - high transition cost lower savings
Breakeven range depending on trading levels and property transition
Pre 2018
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033

b)

Assumptions (implementation costs):

- Time cost of staff at participating authorities supporting implementation including oversight of build of Operator and establishment of non-Operator elements of the Pool structure including Joint Governance Committee of Elected Members (assuming eleven people per day at one day a week for 2½ years at £60k salary = £330k).
- Hiring professional staff in advance of launch date to obtain authorisation and establish operations, processes and governance (assuming five people for 1½ years at £100k salary plus recruitment costs of £150k = £900k).
- Project management (assumed as £150-225k per year for 2 years = £300-450k).
- Other external advisory over 2½ years (assuming tax advice at £200k, technical investment advice including asset transition of £500k, governance costs of £100k = £800k).
- It was assumed that all implementation costs, except Other External Advisory, cease in April 2018 – however, this will not be the case in practice.

Assumptions (transition cost):

- The costs reflect trading activity only. There is no allowance for additional costs that might be incurred on moving assets into the Pool resulting in change of beneficial owner.
- All costs are based on the midpoint of an indicative range provided by Goldman Sachs transition management, as set out in A5 c) and with verification from Hymans Robertson's transition research based on actual client transitions.
- UK equity tax cost assumes stamp duty not applied to assets on moving into Pool structure and applies only to traded asset purchases.
- Global equity cost assumes a split of 85% global developed and 15% emerging markets.
- Fixed income costs assume a split of 60% gilts / 40% corporate bonds as a proxy across traditional and non-traditional assets.
- Costs included for listed assets that the Pool expects to require to be traded only. For the purpose of the analysis some listed asset classes, such as Balanced, Diversified Growth Funds and Hedge Funds, would transition into the Pool with no costs required.
- Costs only include direct costs of transition and do not include the market impact or opportunity cost of the transition. This is a significant and highly variable element of the transition costs with cost ranges between +/- 15bps and 240 bps depending on the asset class, market and time period over which the transition is to be implemented.
- For illiquid assets, such as private equity and infrastructure the assumption is that existing closed ended holdings will wind down and new allocations made within the Pool resulting in no additional transition costs.
- For property, the expectation is that participating authorities with direct holdings will maintain these outside the Pool with no transactional costs. For the remaining property assets, the costs will depend on the eventual Pool solution, which is yet to be agreed. If there is a move from existing fund and fund of fund holdings to a broader managed fund approach it may be possible to retain the existing holdings with no additional costs. If the holdings need to be sold due to ownership issues, or

as part of the move to a more direct approach to investing there could be significant transaction costs which could be anywhere between 150-700bps. Given the property allocation could be in the region of £1.5bn, this could be a cost of £22.5m at the low end of the estimate up to £105m at the upper end, which could add between 2 and 8 years to achieving the breakeven point.

c)

Please refer to response to C4 b).

d)

The costs incurred as part of the set up and implementation of the solution will be met as follows:

- Advisory costs and project management up to September 2016 will be met by the participating authorities and are covered by the MoU such that costs are split equitably across the eleven authorities.
- Subsequent costs in relation to the set up and implementation of the Pool will be covered by a new MoU or related constitution with an agreed method of splitting the costs between the participating authorities. Costs will be met from current Pension Fund assets.
- The exception to this may be any requirement for regulatory capital, where the current understanding is that this needs to be paid by the Operator and needs to be financed by the participating authorities.
- The transition costs incurred will be met by the Pension Fund assets of the participating authorities. The mechanism for distributing these costs is to be confirmed and will depend on the method of transition. The Pool will work closely with specialist transition managers to develop a transition plan that looks to manage these costs and address how and when the costs are met by each participating authority.

C5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.

a) Please explain the format and forum in which the Pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.

b) Please explain the format and forum in which the Pool and participating authorities will transparently report actual investment costs and fees as well as net performance

c) Please explain the format and forum in which the Pool and participating authorities will transparently report actual savings compared to the forecasts above.

a)

The participating authorities commissioned an independent third party (CEM benchmarking) to carry out cost analysis and benchmarking of each authority's investment arrangements and the aggregate cost information at Pool level.

Once established, it is the intention of the authorities and the Pool to continue to carry out cost analysis using suitably qualified independent third parties, to allow clear and transparent reporting and scrutiny of the investment arrangements, which will inform decision-making and allow efficient reporting against the set criteria on which the pooling arrangements are to be measured.

The intention of the Pool would also be to employ a specialist transition manager to assist in the implementation of any transition into the Pool. As part of this service, the manager will be asked to prepare pre and post trade analysis that will allow the Pool to compare actual and estimated costs and also compare these with the initial estimates provided in this submission.

The Pool intends to publically disclose the Pool level costs on an annual basis.

b)

The Pool will ensure that performance costs and fee analysis is undertaken on a regular basis to ensure the good governance and operation of the Pool. This information will be publically disclosed on an annual basis and will include net of costs performance.

Participating authorities will also receive regular quarterly reporting from the Pool that will encompass performance, fee and cost information (trading, transaction and transition costs).

Performance of the underlying manager options and sub-funds will also be published on the Pool's website.

Regular reporting will also be provided specifically for the Joint Committee of Elected Members and Officer Operating Group.

c)

Relevant information on costs and savings are calculated and disclosed on a regular basis. The actual costs and savings can then be compared with the numbers provided in this submission.

This information will be made available to the relevant parties as set out in C5 b).

Criterion D: An improved capacity to invest in infrastructure

D1. The proportion of the total Pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"

a) Please state the Pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.

b) Please state the Pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.

Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.

a)

For the purpose of this response, the definition below of Infrastructure as agreed by the Cross Pool Collaboration Group has been used.

> *Global infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. For illustration purposes, key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health, education facilities and social accommodation.*
>
> *Conventional commercial property is not normally included, but, where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs, it may be. Infrastructure service companies would not normally be included.*
>
> *The development, construction and commissioning of infrastructure assets is included in the broad definition, but, such assets may not meet the needs of core infrastructure investors until operational, and such activities may be supported through other investment areas such as private equity.*
>
> Source: Cross Pool Collaboration Group - a group made up of LGPS Officer representatives from all proposed Pools.

Some of the participating authorities have serious concerns on the inclusion of social accommodation in this definition. Individual participating authorities will determine their own definition of infrastructure when they choose to make asset allocation decisions. Each of the participating authorities will assess which infrastructure assets are suitable and appropriate for their own Pension Fund's purposes; this may or may not include the sectors set out in the illustration.

In the context of the above definition and exclusions **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%

b)

Please refer to D1 a).

D2. How the Pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined Pool, rather than existing fund, or "fund of funds" arrangements.

a) Please confirm that the Pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.

b) Please confirm that the Pool 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.

a)

It is acknowledged that infrastructure can deliver attractive returns combined with lower volatility than publicly traded instruments. As long term investors, Pension Funds should benefit from a 'liquidity premium'. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics

- Substantially backed by durable physical assets
- Long life and low risk of obsolescence
- Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked
- Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry
- Returns to show limited correlation to other asset classes

Individual authorities will have further additional criteria they apply before making investments, such as current yield, time to income generation, management strength, risk mitigation measures, and amount of leverage.

The differential between the strategic allocation and actual investment for global infrastructure demonstrates the significant challenge in finding investments which will yield returns large enough and of appropriate profile, to justify their acquisition. There is a concern that even with current levels of investment, the capital available is outweighing the supply of infrastructure opportunities.

However, the Pool will work to provide opportunities that meet the underlying requirements of the participating authorities, noting that some of these may be local to the Pension Fund.

Notwithstanding the comments set out below, participating authorities are committed to investigating all options for providing the participating authorities with access to the most appropriate global infrastructure investments to match their asset allocations, including working with other LGPS authorities or Pools nationally to investigate the creation of a vehicle which will help make appropriate infrastructure investments more accessible to the LGPS at a lower cost.

It is acknowledged that smaller LGPS Pension Funds, such as the Isle of Wight within the ACCESS Pool, have not had sufficient scale to invest directly in infrastructure and, therefore, the higher fees levied by fund of fund arrangements make the net return to the investor insufficient to meet the Pension Fund's return targets. The economies of scale, which are derived from the pooling of assets, should deliver an opportunity for these funds to invest more directly and therefore lower the cost of investing.

To ensure success, such a vehicle should be designed to meet the specific needs of LGPS investors, given the distinctive nature of LGPS pension liabilities and risk appetite and it will take time to create a suitably diversified portfolio for investors.

In the short to medium term, this will mean providing the opportunity for participating authorities to move away from fund of fund arrangements to direct Investment, via an external investment manager.

Over the longer term, the establishment of a national vehicle could be an appropriate way for participating authorities to allocate to specialist infrastructure. ACCESS is working with other Pools on the feasibility of this approach. The work to date has established that any infrastructure collaboration across Pools should:

- Ensure that any collaborative investment in this area is made in the financial interests of the members of the Pension Funds, with no undue outside influence either at a local or national level.
- Leverage the combined buying power of the LGPS.
- Share and expand the internal expertise currently available within individual Pools to the benefit of all.
- Accept that, to be effective, we should play to our strengths and look to build collaborative strategic partnerships with the wider infrastructure investment management industry.
- Make the asset class accessible to all participating authorities within each Pool regardless of scale.
- Use the combine LGPS scale and expertise to improve governance rights and reduce the fee burden.

It must be acknowledged that ensuring the national vehicle is capable of delivering on the requirements of all LGPS Pension Funds could take up to fifteen years, before it is in a position where it could invest directly on behalf of the LGPS. The national vehicle’s team will need to demonstrate that they have sufficient knowledge, expertise, experience and strategic partnership relationships within the infrastructure sector.

In the work carried out as part of Project POOL, the amount invested in infrastructure across the LGPS was estimated to be around £2bn, of which around £400m were invested on a fund of funds basis and £1.6bn through direct investments or direct fund allocations. The report, therefore, cited the potential for achieving significant savings through removing the fund of fund layer for some investors and investing more directly through in house teams or a more cost effective infrastructure platform. The level of fees within the participating authorities ranged from around 80bps to 150bps. The Pool will continue to look at potential models and platforms to access the asset class which meets the needs of the authorities.

This will include existing platforms where the Pool is aware of fees levels as low as 50bps, which would be a marked reduction in the existing level of fees, but any option would also need to deliver attractive returns net of fees.

b)

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.

c)

See response to D2 a).

D3. The proportion the Pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.

a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.

b) Please describe the conditions in which this allocation could be realised.

a)

Short to medium term proposal on infrastructure

It is an important premise that LGPS asset allocation decisions must remain matters for each local Pension Fund, taking into consideration their own asset and liability profile and their own risk and return targets.

Decisions must not be influenced by other global Pension Fund investors or benchmark comparators.

In making any investment decision, Pension Funds must invest in the best interests of their scheme members and beneficiaries and, in the event of a conflict, in the sole interests of members and their beneficiaries.

In addition, the growing structural weight allocated to infrastructure at the same time that there is a shortage of large scale, long term, infrastructure assets, means that there is too much money chasing too few sizeable, high quality infrastructure assets and developments. It is widely reported that there is no shortage of Pension Fund capital seeking infrastructure investments in the UK or elsewhere and this could impact on costs and returns.

Therefore, the Government must not set targets for global, national or local infrastructure investment or remove the right from individual Pension Fund authorities to make their own decisions about strategic asset allocation. Investments must be made solely on the basis of infrastructure being an attractive investment for funds and nothing to do with political pressure.

Participating authorities do believe that, in the short to medium term there is potential for the Pool to increase their asset allocation to global infrastructure investments (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 – particularly return and risk – of the underlying investors.

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.

b)

Please see response to D3 a).

Annex 1 – assets to be held outside the Pool

This annex sets out the Fund specific responses in relation to the following criteria:

A2.	**Assets which are proposed to be held outside the Pool and the rationale for doing so.**
b)	Please attach an ANNEX for each authority that proposes to hold assets outside of the Pool detailing the amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money.

Each of the administering authorities within the Pool which holds direct property investments intends to hold these assets outside of the pool on a permanent basis.

Why should current direct property allocation be ex Pool
The authorities are pleased that the Government has acknowledged the potential quantum of costs associated with consolidation of existing direct property assets, as set out in detail within the Project POOL report. However we feel that it is important to understand the characteristics of property as an asset class, and therefore the rationale for holding an allocation permanently outside the pool.

The main reasons for investing in property are:

- Diversification away from equities
- Liquidity premium
- Scope for growth in capital value
- Long term income streams which match the long term liabilities fund shave
- Ability to select asset managers who can add value through skill

Although each property portfolio is managed with reference to a UK benchmark, the manner in which these strategies are implemented by the property investment managers will differ from portfolio to portfolio. The implications of the consolidation of two property portfolios is more significant given the underlying assets are not fungible. Whilst the underlying holdings in any given property portfolio may make sense given the circumstances of the mandate, pooling may begin to invalidate the reasons for holding assets. For example, one Fund may have a large allocation to central London offices, whilst another is more focused on managing smaller assets. Consolidation would imply the two portfolios fall under the control of a single manager which would result in change as the new manager would be expected to build a new portfolio with a unified strategy and appropriate sized assets, which could potentially impact on the rationale for the initial asset allocation by the respective funds. Specifically to property the transition cost from the old to the new portfolios would be significant with SDLT at 5% plus agents and legal fees. Importantly these transactions will occur over a period of time and not at transfer into any Pool.

This extends to transition risk. If a portfolio is wound down over a number of years, there is a risk of a disconnect between the assets held outside and within the Pool and therefore there is a risk that:

- The strategic investment allocation within the portfolio and control over liquidity is lost, which could compromise the level of investment return and potentially increase volatility.
- There is a doubling up of investment risk, as a result of the positioning of the new pooled investment being similarly under / overweight or has similar directional allocation to the assets.

remaining in the legacy portfolio. This could compromise the level of investment return and potentially increase volatility.

- The managers motivation to manage a portfolio with a long tail could be difficult and in the short term increase fees.

Direct property management fees comprise a number of elements. These have been summarised below alongside a suggestion as to whether these fees could be reduced by the creation of larger portfolios:

Fee bracket	Services covered	Benefits of size and scale?
Management Fees	Research and strategy development Transactions Portfolio accounting and record keeping (including valuations) Reporting and client relations	No No Potential Potential
Property Expenses	Property management including rent / service charge collection Service charge shortfalls Rent review / lease renewals Maintenance / repairs Property insurance Marketing of vacant property Project management	No No No No No No Potential
Transaction Costs	Stamp Duty Agency fees Legal, survey costs etc	No No No

Research by Project POOL also suggests that the size of the asset portfolio does not have a significant impact on fees. The table below shows average proposed investment management fee (p.a.) assuming different portfolio sizes:

	£250m	£500m	£1,000m	£2,000m
All observations	0.28%	0.27%	0.24%	0.23%
Lowest three observations	0.18%	0.18%	0.16%	0.14%

Assumptions:

- The costs of day to day property management (assumed at 0.05% p.a.) have been excluded. These costs may be partially, or wholly, recovered from tenants.
- Other costs will be incurred in the management of assets, either in respect of property expenses or transaction costs levied by third parties and would be incurred regardless of the means of access. These have been excluded from the above.
- Managers may be willing to offer lower fees for larger mandates due to the physical nature of the asset class there is likely to be a limit on the scale of any reduction. Adding value requires significant resource including market research, advice, dealing with occupiers and buildings and reporting and financial management.
- A willingness to pay a slightly higher fee may give a better net of fee performance eg by providing access to more experience asset managers and could represent the difference between an asset being let, or remaining vacant. Investment manager skill is a major determinant of returns.

Project POOL concluded that the potential level of savings is likely to be 0.05% to 0.10% p.a. However:

- There are a number of concerns associated with the potential consolidation of portfolios, as set out elsewhere.
- There would be costs associated with setting up an investment vehicle which could override this potential reduction.
- The cost analysis shows that the direct mandates are already the most competitive in terms of value for money.

A portfolio of £2-3bn would be among the largest in the UK. Portfolios are already at sufficient scale to ensure effective diversification of risk (can be achieved with ten to fifteen assets), and research by IPD, the largest UK provider of property benchmarking services, suggests that portfolio size does not improve performance:

	Average Return (p.a.)	Volatility of Return (p.a.)
Small < £120m	9.2%	9.5%
Medium > £120m <£1,020m	9.2%	9.7%
Large > £1,020m <£2,070m	9.1%	10.3%
Very Large > £2,070m	9.5%	10.9%
Average	9.2%	10.2%

As referenced above, investment manager skill is a major determinant of returns. The availability of high quality investment managers for a large mandate is untested. Given the significant one-off costs for transition of any assets to build a new portfolio (+5%) and the evidence of little to no potential fee reduction or investment performance improvement, there is no value for money basis to pool existing allocations to direct property portfolios.

Cambridgeshire County Council

Cambridgeshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Local investment	17m	Cambridgeshire holds a small illiquid local investment. The nature of this investment means that it would be impractical and inefficient to hold inside the Pool. The investment is a joint venture with Cambridge University and therefore would be held until there is no longer a locally decided strategic case for retaining the investment.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Cambridgeshire County Council on a regular basis.

East Sussex County Council

East Sussex County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by East Sussex County Council on a regular basis.

Essex County Council

Essex County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	542	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Essex County Council on a regular basis.

Hampshire County Council

Hampshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	401	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Hampshire County Council on a regular basis.

Hertfordshire County Council

Hertfordshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Hertfordshire County Council on a regular basis.

Isle of Wight Council

Isle of Wight Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Isle of Wight Council on a regular basis.

Kent County Council

Kent County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	418	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Kent County Council on a regular basis.

Norfolk County Council

Norfolk County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Currency hedging	TBC – no direct asset base	Currency hedging approach tailored around physical asset exposures. Options will be explored as to how this could be implemented within or alongside Pool assets.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Norfolk County Council on a regular basis.

Northamptonshire County Council

Northamptonshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Northamptonshire County Council on a regular basis.

Suffolk County Council

Suffolk County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Suffolk County Council on a regular basis.

West Sussex County Council

West Sussex County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	216	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by West Sussex County Council on a regular basis.

Annex 2 – Memorandum of Understanding

Dated **2016**

CAMBRIDGESHIRE COUNTY COUNCIL

ESSEX COUNTY COUNCIL

EAST SUSSEX COUNTY COUNCIL

HAMPSHIRE COUNTY COUNCIL

HERTFORDSHIRE COUNTY COUNCIL

ISLE OF WIGHT COUNCIL

KENT COUNTY COUNCIL

NORTHAMPTONSHIRE COUNTY COUNCIL

NORFOLK COUNTY COUNCIL

SUFFOLK COUNTY COUNCIL

and

WEST SUSSEX COUNTY COUNCIL

ACCESS Pool Memorandum of Understanding

---

nplaw
Norfolk County Council
County Hall
Martineau Lane
Norwich
Norfolk
NR1 2DH
ref nplaw/35531

TABLE OF CONTENTS

THIS AGREEMENT IS MADE ON THE DAY OF 2016

BETWEEN

(1) **CAMBRIDGESHIRE COUNTY COUNCIL** of Shire Hall, Castle Street, Cambridge, CB3 0AJ ("**Cambridge**");

(2) **ESSEX COUNTY COUNCIL** of County Hall, Market Road, Chelmsford CM1 1QH ("**Essex**");

(3) **EAST SUSSEX COUNTY COUNCIL** of County Hall, St Anne's Crescent, Lewes, East Sussex BN7 1UE ("**East Sussex**");

(4) **HAMPSHIRE COUNTY COUNCIL** of The Castle, Winchester, Hampshire SO23 8UJ ("**Hampshire**");

(5) **HERTFORDSHIRE COUNTY COUNCIL** of County Hall, Pegs Lane, Hertford SG13 8DQ ("**Hertfordshire**");

(6) **ISLE OF WIGHT COUNCIL** of County Hall, High St, Newport, Isle of Wight PO30 1UD ("**Isle of Wight**");

(7) **KENT COUNTY COUNCIL** of County Hall, Maidstone, ME14 1XQ ("**Kent**")

(8) **NORFOLK COUNTY COUNCIL** of County Hall, Martineau Lane, Norwich, NR1 2DH ("**Norfolk**");

(9) **NORTHAMPTONSHIRE COUNTY COUNCIL** of County Hall, Northampton NN1 1ED ("**Northants**")

(10) **SUFFOLK COUNTY COUNCIL** of Endeavour House, 8 Russell Road, Ipswich, Suffolk, IP1 2BX ("**Suffolk**");

and

(11) **WEST SUSSEX COUNTY COUNCIL** of County Hall North, West Street, Chichester, West Sussex, PO19 1RG ("**West Sussex**")

together "**the Parties**" and each individually "**the Party**"

1. BACKGROUND

1.1 The Parties as respective administering authorities of the Local Government Pensions Scheme ("**LGPS**") Cambridgeshire Pension Fund, Essex Pension Fund, East Sussex Pension Fund, Hampshire Pension Fund, Hertfordshire Pension Fund, Kent Pension Fund, Northamptonshire Pension Fund, Norfolk Pension Fund, Isle of Wight Pension Fund, Suffolk Pension Fund and West Sussex County Council Pensions for the purposes of the project described in this agreement ("**the Project**") and collectively referred to as the "**ACCESS Pool**" wish to collaborate in order to:

1.1.1 respond to the Chancellor of Exchequer's Summer Budget of 2015 and fulfil their respective obligations arising pursuant to the Department for Communities and Local Government's *Local Government Pension Scheme: Investment Reform Criteria and Guidance of November 2015*;

1.1.2 demonstrate their respective commitments to LGPS Multi-asset Pools ("**MAPs**"); and

1.1.3 meet their requirement to submit detailed proposals to Government by 15^{th} July 2016 deadline.

Accordingly the Parties have agreed to work together to achieve the mission statement set out in Appendix A ("**Mission Statement**") and wish to record the basis on which they will collaborate on the Project.

This Memorandum of Understanding ("**MoU**") sets out:

1.1.4 the objectives of the Project;

1.1.5 the principles of collaboration;

1.1.6 interworking arrangements between Parties' officers for the purpose of developing subject to their Elected Members' consideration and approval a substantive ACCESS Pool response to the Government consultation referred to in clause 1.1;

1.1.7 the initial governance structures the Parties will put in place; and

1.1.8 the respective roles and responsibilities the Parties will have during the Project .

2. <u>KEY OBJECTIVES FOR THE PROJECT</u>

2.1 The Parties shall undertake the Project to achieve the Mission Statement in accordance with the principles set out in Appendix B to this MoU ("**Principles**").

3. PRINCIPLES OF COLLABORATION

3.1 The Parties agree to adopt the following behaviours when carrying out the Project ("**Behaviours**"):

3.1.1 collaborate and co-operate. The Parties will establish and adhere to the governance structure set out in this MoU to ensure that activities are delivered and actions taken as required;

3.1.2 be accountable. The Parties will take on, manage and account to each other for performance of the respective roles and responsibilities set out in this MoU;

3.1.3 be open. The Parties will communicate openly about concerns, issues or opportunities relating to the Project;

3.1.4 learn, develop and seek to achieve full potential. The Parties will share information, experience, materials and skills to learn from each other and develop effective working practices, work collaboratively to identify solutions, eliminate duplication of effort, mitigate risk and reduce cost;

3.1.5 adopt a positive outlook. The Parties will behave in a positive, proactive manner;

3.1.6 adhere to statutory requirements and best practice. The Parties will comply with applicable laws and standards including EU procurement rules, data protection and freedom of information legislation;

3.1.7 act in a timely manner. The Parties will recognise the time-critical nature of the Project and respond accordingly to requests for support;

3.1.8 manage stakeholders effectively;

3.1.9 deploy appropriate resources. The Parties will ensure sufficient and appropriately qualified resources are available and authorised to fulfil the responsibilities set out in this MoU. In particular the parties agree to make the contributions detailed in Appendix C to this MoU; and

3.1.10 act in good faith to support achievement of the Mission Statement, adherence to the Principles and compliance with these Behaviours.

4. PROJECT GOVERNANCE

4.1 Overview

The governance structure defined below provides a structure for the development and delivery of the Project.

4.2 Governance Aims

The following aims for the governance of the Project are agreed. The Project's governance will:

4.2.1 provide strategic oversight and direction;

4.2.2 be based on clearly defined roles and responsibilities at organisation, group and, where necessary, individual level;

4.2.3 align decision-making authority with the criticality of the decisions required;

4.2.4 be aligned with the Project (and may therefore require changes over time); and

4.2.5 provide coherent, timely and efficient decision-making.

4.3 Officer Working Group

4.3.1 The Officer Working Group consisting of the representatives of each of the Parties set out at clause 4.3.2 ("**the Officer Working Group**") will provide strategic and operational management of the Project. It will provide assurance to the Parties that the Mission Statement and Principles are being met.

4.3.2 The Officer Working Group shall have responsibility for the creation and execution of the Project plan and deliverables, and therefore it can draw technical, commercial, legal and communications resources as appropriate into the Officer Working Group. Each Party shall have a representative on the Officer Working Group with sufficient authority for the Officer Working Group to discharge its responsibilities. The initial named members are:

Pension Fund	REPRESENTATIVE	EMAIL ADDRESS
CAMBRIDGESHIRE	Mark Whitby	MWhitby@northamptonshire.gov.uk
EAST SUSSEX	Ola Owolabi	Ola.Owolabi@eastsussex.gov.uk
ESSEX	Kevin McDonald	Kevin.McDonald@essex.gov.uk
HAMPSHIRE	Andrew Boutflower	andrew.boutflower@hants.gov.uk
HERTFORDSHIRE	Patrick Towey	Patrick.Towey@hertfordshire.gov.uk
ISLE OF WIGHT	Jo Thistlewood	Jo.Thistlewood@iow.gov.uk
KENT	Nick Vickers	nick.vickers@kent.gov.uk
NORFOLK	Nicola Mark	Nicola.Mark@norfolk.gov.uk
NORTHAMPTONSHIRE	Paul Tysoe	PHTysoe@northamptonshire.gov.uk
SUFFOLK	Paul Finbow	paul.finbow@suffolk.gov.uk
WEST SUSSEX	Rachel Wood	rachel.wood@westsussex.gov.uk

4.3.3 Each Party may substitute or replace its initial above named representative as required.

4.3.4 The Officer Working Group shall meet monthly or as otherwise agreed from time to time.

4.3.5 Any Party may call a meeting of the Officer Working Group provided that at least ten business days' notice of a meeting of the Officer Working Group is given to all the Parties. A proposed agenda shall be attached to each notice.

4.3.6 A shorter period of notice of a meeting of the Officer Working Group may be given if at least three Parties agree in writing.

4.3.7 The quorum of any Officer Working Group meeting shall be 75% of the Parties.

4.3.8 No business shall be conducted at any Officer Working Group unless a quorum is present at the beginning of the meeting and at the time when there is to be voting on any business.

4.3.9 Parties may participate by telephone in any Officer Working Group meeting and shall be included for purposes of the quorum.

4.3.10 The Parties shall use their respective reasonable endeavours to ensure that any meeting of the Officer Working Group has the requisite quorum.

4.3.11 Where the Officer Working Group wishes to vote on any such matters it shall be resolved by a simple majority of those present or participating by telephone.

4.4 **Reporting**

Project reporting shall be undertaken at two levels:

4.4.1 **Officer Working Group:** Minutes and actions will be recorded for each Officer Working Group meeting highlighting: Progress on actions; issues being managed; issues requiring escalations and progress planned for the next period and circulated to the Parties promptly following each meeting. Any additional reporting requirement shall be at the discretion of the Officer Working Group.

4.4.2 **Organisational:** the Officer Working Group members shall be individually responsible for drafting any reports that their respective sponsoring organisations may require from time to time and obtaining any required Elected Member approvals.

5. ROLES AND RESPONSIBILITIES

5.1 The Parties shall undertake the roles and responsibilities required to deliver the Project as agreed at its commencement and from time to time.

5.2 For the purpose of such roles and responsibilities a Lead may be appointed by the Officer Working Group, being the party who has principal responsibility for undertaking the particular task or area of work as set out and instructed by the Officer Working Group. The Lead must act in compliance with the Mission Statement, Principles and Behaviours at all times.

6. ESCALATION

6.1 If a Party has any material issues, concerns or complaints about the Project, or any matter in this MoU, that Party shall notify the other Parties with a direct interest in such issues and those Parties shall then seek to resolve the issue by a process of consultation.

6.2 If any Party receives any formal inquiry, complaint, claim or threat of action from a third party (including, but not limited to, claims made by a supplier or requests for information made under the Freedom of Information Act 2000 ("**FOIA**") in relation to the Project, the matter shall be referred to the Officer Working Group (or its nominated representatives) as soon as practicable and in any event within two

(2) business days of receipt. No action shall be taken in response to any such inquiry, complaint, claim or action, to the extent that such response would adversely affect any Party, without the prior approval of that Party (or its nominated representative). Each of the Parties shall provide all necessary assistance and cooperation as reasonably requested by the Officer Working Group to enable the Parties to comply with their respective obligations under FOIA.

6.3 No Party shall commence formal dispute resolution proceedings (to include litigation) until the Parties' designated representatives have attempted to resolve the dispute informally by discussing the problem and negotiating in good faith for a period of at least 15 business days.

7. INTELLECTUAL PROPERTY & PUBLICITY

7.1 The Parties intend that notwithstanding any secondment any intellectual property rights created in the course of the Project shall vest in the Party whose employee created them (or in the case of any intellectual property rights created jointly by employees of several Parties in the Lead noted in clause 5 above for the part of the Project that the intellectual property right relates to).

7.2 Where any intellectual property right vests in any Party in accordance with clause 7.1 above, that Party shall grant an irrevocable royalty-free licence to the other Parties to use that intellectual property for the purposes of the Project.

7.3 Unless otherwise directed by the Parties, the Officer Working Group shall be responsible for all press announcements and publicity in relation to the Project.

7.4 The Parties shall be entitled to publicise their involvement in accordance with any legal obligation upon the respective Party.

8. TERM AND TERMINATION

8.1 This MoU shall commence on the date of signature by each of the Parties, and shall expire on completion of the Project which shall be deemed to occur on the latter of the 15th July 2016 or the acceptance by the Department for Communities and Local Government of any clarifications required by it pursuant to the submission referred to in clause 1.1.3.

8.2 A Party may terminate its participation in the Project and agreement to this MoU by giving at least one months' notice in writing to the other Parties at any time.

8.3 On termination or expiry of this MoU, the following clauses shall continue in force: clauses 6, 7, 8, 9, 10, 11, 12 and 13.

9. VARIATION

9.1 This MoU, including the Appendices, may only be varied by written agreement of all the Parties.

10. CHARGES AND LIABILITIES

10.1 Except as otherwise provided including at clause 10.2, the Parties shall each bear their own costs and expenses incurred in complying with their obligations under this MoU.

10.2 The Parties agree to share the costs and expenses arising in respect of the Project between them in accordance with the Contributions Schedule [set out in Appendix C to this MoU][to be developed by the Officer Working Group and approved by the Parties within three months of the date of this MoU].

10.3 Each of the Parties shall remain liable for any losses or liabilities incurred due to their own or their employees' actions.

10.4 For the avoidance of doubt a Party's obligations pursuant to clause 10.2 in respect of funding for costs that have not been incurred by the Project at the date of that Party's termination in the Project shall cease upon the date of that Party's termination.

11. STATUS

11.1 The Parties enter into the MoU intending to honour all their obligations. Clauses 6, 7, 8, 9, 10, 11, 12 and 13 are legally binding. The other clauses of this MoU are not intended to be legally binding.

11.2 Nothing in this MoU is intended to, or shall be deemed to, establish any partnership or joint venture between the Parties, constitute either Party as the agent of the other Party, nor authorise any of the Parties to make or enter into any commitments for or on behalf of the other Parties.

11.3 Notwithstanding anything apparently or impliedly to the contrary in this MoU, in carrying out its statutory duties or functions the discretion of each of the Parties shall not be fettered, constrained or otherwise unlawfully affected by the terms of this MoU.

12. COUNTERPARTS

12.1 This MoU may be executed in any number of counterparts and by the Parties on separate counterparts, but shall not be effective until each Party has executed at least one counterpart. Each counterpart, when executed, shall be an original of this MoU and all counterparts shall together constitute one instrument.

12.2 Any notice given to a Party under or in connection with this MoU shall be in writing and shall be:

12.2.1 delivered by hand or by pre-paid first-class post or other next working day delivery service at its principal place of business as referred to in this MoU; or

12.2.2 sent by email to the address specified in clause 4.3.2.

13. GOVERNING LAW AND JURISDICTION

13.1 This MoU shall be governed by and construed in accordance with English law and, without affecting the escalation procedure set out in clause 6, each of the Parties agrees to submit to the exclusive jurisdiction of the courts of England and Wales.

APPENDIX A – ACCESS POOL MISSION STATEMENT

To establish a multi-asset pooling arrangement in order to:

1) Enable participating authorities to execute their fiduciary responsibilities to 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.

APPENDIX B – Principles of the ACCESS Pool

1. The participating authorities will work collaboratively.

2. Participating authorities will have an equitable voice in governance.

3. Decision making will be objective and evidence based.

4. The pool will use professional resources as appropriate.

5. 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.

6. The pool will avoid unnecessary complexity.

7. The pool will evolve its approach to meet changing needs and objectives.

8. The pool will welcome innovation.

9. The pool will be established and run economically, applying value for money considerations.

10. The pool's costs will be shared equitably.

11. The pool is committed to collaboration with other pools where there is potential to maximise benefits.

APPENDIX C - Contributions

[INSERT DETAILS OF CONTRIBUTIONS (INCLUDING FINANCIAL, STAFFING, PREMISES, USE OF IT ETC) THAT THE PARTIES ARE WILLING TO COMMIT. THIS SHOULD ALSO INCLUDE ANY ARRANGEMENTS FOR CROSS-CHARGING AND OTHER PROJECT COSTS (FOR EXAMPLE ANY CONSULTANT'S COSTS THAT MAY NEED TO BE PAID)]