

Report to: **Pension Board**

Date of meeting: **3 August 2017**

By: **Chief Finance Officer**

Title: **Local Government Pension Scheme (LGPS) Pooling - ACCESS updates**

Purpose: **To provide the Board with an update on the activities undertaken by the ACCESS Pool group**

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## **RECOMMENDATION**

**The Board is recommended to consider and comment upon the activities undertaken by the ACCESS Pool.**

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### **1. Background**

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

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

### **2. Governance**

2.1 The inter-authority agreement establishes the Joint Committee (JC); the JC will be responsible for the following functions:

- Specifying the operator service to be procured;
- Procuring the operator;
- Appointing the operator;
- Reviewing the performance of the operator;
- Managing the operator; and
- Appointment of advisers.

2.2 The JC will be “hosted” by one of the ACCESS local authorities and will undertake the secretariat function for the JC. Kent County Council will be the initial host authority. The Chairmen of the ACCESS Pension Fund Committees have previously met on a shadow basis and has formally met for the first time as an established body on 31 July 2017 following the completion of the legal sealing of the IAA by all Funds. At this first meeting, a Chairman and Vice-Chairman will be appointed by the eleven ACCESS fund Chairmen.

2.3 In its shadow form the ACCESS Chairmen have met monthly supported by Fund officers. The East Sussex Pension Committee (PC) and Pension Board have been kept apprised of the ACCESS pool development and progress at its quarterly meetings.

2.4 The Pension Committee's future role will be to agree and approve the investment strategy for the Fund. However, the PC will no longer be able to appoint Fund managers directly and in the future this role will be undertaken by the Operator who will appoint the managers in consultation with the JC. The asset allocation requirements of each Fund will be implemented by the JC who will instruct the Operator via a client function, made up of Fund officers, to set up sub funds to meet the Funds' requirements. The Chair of the East Sussex Pension Committee will sit on the JC alongside the other ten Chairmen of the ACCESS Funds.

### **3. Operator Procurement**

3.1 Kent County Council's procurement team is leading on the procurement of the Operator, supported by a number of ACCESS officers and Hymans Robertson. Squire Patton Boggs has been appointed to provide legal advice to ACCESS and are supporting officers in the drafting of tender and contract documents as well as providing advice on FCA regulations and procurement law.

3.2 To inform the procurement approach to be adopted, a concept viability day was held in April attended by ACCESS Fund Chairmen at which a number of operator providers also attended. The purpose of this meeting was to gain a better understanding of market coverage and experience and to inform certain gaps in the tender specification. Following this meeting the ACCESS Chairmen agreed that an open procurement process should be adopted as opposed to a competitive dialogue which is only used for complex procurements where the requirement is not fully known. The proposed procurement timetable is set out below:

<b>Stage</b>	<b>Dates</b>
Issue OJEU1 & ITT2	10 July 2017
Tender response deadline	21 August 2017
Tender evaluation period	22 August - 22 September 2017
Governance	25 September - 13 October 2017
Notification of award, pre-award meeting & contract construct	16 October – 31 October 2017
Contract signature	1 November 2017

3.3 The contract term will be for five years with the option to extend for a further two years. The expectation is that the appointed Operator will be able to get an FCA Authorised Contractual Scheme (ACS) umbrella structure established by the 1st April although transition of assets to the pool may not occur immediately.

3.4 In order to (a) reduce transition costs on the initial transfer of assets from individual administering funds into the ACCESS ACS and (b) retain a number of existing investment managers, it is anticipated that some or all of the initial set of ACS sub-funds will use investment managers currently contracted to ACCESS administering authority Funds. A detailed analysis of the areas of commonality between the existing investment managers and mandates will need to be undertaken. This will include an analysis of benchmarks for various asset classes and will inform for consideration by the JC the initial set of ACS sub-funds. A sub-fund will be created for each asset class and could be single or multi-manger depending on the requirements of the ACCESS funds.

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

### **4. Passive Procurement**

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

4.2 ACCESS has now commenced a “mini” tender process within this framework. The procurement process is due to be completed in September and the intention is to appoint a single provider to the ACCESS pool. A recommendation will be put to the JC for ratification at either its September meeting. Once the outcome of the tender is known, an analysis will be undertaken by officers to compare current provider fee arrangements to the successful bidder and if there are demonstrable savings and a clear value for money case then a recommendation will be made to this Committee to appoint the manager awarded the ACCESS passive contract.

## **5. Financial Implications**

5.1 The costs incurred by the East Sussex Pension Fund up to the end of June 2017 were £20,875.90 for the ACCESS project; these costs include legal and project management fees but exclude officer time. The estimated implementation costs of establishing a CIV are estimated to be £50k per annum for the ESPF. Eventual savings for the ACCESS Pool are projected to be £30m annually. Allowing for investment growth of 3-5% per annum, by year 10 this will be equivalent to £40-50m.

## **6. Conclusion and reasons for recommendations**

6.1 That the Pension Board notes the content of this report and the progress on pooling since the last report.

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Background Documents  
None