

Report to: **Pension Board**

Date of meeting: **16 November 2017**

By: **Chief Finance Officer**

Title: **Local Government Pension Scheme (LGPS) Pooling – ACCESS update**

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

RECOMMENDATION –

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

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 now formally met twice as an established body on 31 July 2017 and 2 October 2017 respectively.

2.3 The East Sussex Pension Committee's future role will be to agree and approve the investment strategy for the Fund. However, the Committee 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 which will instruct the Operator, via a client function, to set up sub funds to meet the Funds' requirements. The Chair of the East Sussex Pension Committee will sit on the JC as the ACCESS Vice Chairman, alongside the other ten Chairmen of the ACCESS Funds.

2.4 Papers from previous and future ACCESS JC meetings can be found on the [Kent County Council website](#).

2.5 Communication with DCLG - All the LGPS pools were asked to provide an update to DCLG in July on the progress being made with the pooling arrangements. The latest update provided to DCLG on 20 October is attached as Appendix 2.

3. Operator Procurement

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

3.2 The Invitation to Tender (ITT) and Official Journal of the European Union (OJEU) notice was issued on 4 September with responses due by 6 October 2017. Responses are currently being evaluated by a panel of officers and members. The JC is scheduled to approve the recommended supplier in November and to recommend the contract award to individual Funds for their approval during late November / early December. The 27 November meeting of the Pension Committee might be too early to make this decision. Therefore, the Committee will be asked to agree to delegate to the Chief Finance Officer in consultation with the Chair of the Pension Committee the approval of the contract. The proposed procurement timetable is set out below:

Stage	Dates
Sign-off of ITT by Officers Working Group (OWG)	4 th September 2017
Issue OJEU & ITT	5 th September 2017
Tender response deadline	12 noon, 6 th October 2017
Evaluation period	9 th October – 14 th November 2017
Sign off of Award Recommendation Report by OWG	17 th November 2017 (date TBC)
Sign off of Award Recommendation Report by JC	Late November/early December (TBC)
Authorities' award governance procedures	1 st December – 15 th December 2017
Supplier notification of award	18 th December 2017
Contract sealing complete	15 th January 2018
Contract commencement date	1 st February 2018

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 1 April 2018 although transition of assets to the pool may not occur immediately.

4. Investment Manager Rationalisation

4.1 As reported to the last meeting of the Board the ACCESS Funds agreed to commission a piece of work to review the current investment manager structures of the 11 Funds in order to better identify areas of cross-over and areas where there are significant differences of approach, bfinance was commissioned to:

- Prepare a "map" of existing holdings,
- Assess those holdings for suitability within the sub-fund structure,
- Make recommendations on the initial population of sub-funds, and
- Consider the impact on fees.

4.2 The OWG has received the bfinance report and used it to inform the CIV Operator Procurement. It is anticipated, given advice received from SPB – the legal adviser to the Operator procurement exercise – that the initial sub-fund structure will be based on existing investment manager mandates of individual Funds. Over the next few months the report's recommendations will be further reviewed as Funds will need to agree on the most appropriate mandates.

4.3 The intention is that the sub-fund structure will be agreed by all ACCESS Funds by 1 February 2018, when the Operator's contract commences, so that they can go ahead and seek authorisation from the FCA for the establishment of the sub-funds.

5. Contract Manager/Client Role

5.1 As part of the governance for the day to day management of the operator contract it was agreed by ACCESS Chairman at its meeting that a contract management function should be established. The contract function will be responsible for the implementation of local fund strategic asset allocation decisions and will act as the conduit between the Funds, JC and the operator.

5.2 The ACCESS operator contract will be a significant contract with a contract value estimated to be between £16-25m over 5 years and with AUM of up to £40.6bn; this will be a potentially complex contract with a number of technical, legal and strategic issues and a number of relationships to be managed on a day to day basis. It is important that the contract management function is staffed by individuals with the appropriate skill sets and led by an individual who has the right commercial, technical, inter-personal and management skills.

6. Passive Procurement

6.1 ACCESS has now completed the "mini" tender process within the framework to appoint a single provider to the ACCESS pool. Following competition, the ACCESS Funds have awarded a contract for their combined passive mandate to UBS Asset Management (UK) Limited. A recommendation was considered by the JC for ratification at its October meeting. The total assets under passive management for ACCESS will be £10.5bn (press Release attached as Appendix 1).

6.2 A passive investment procurement paper will be considered as an exempt item by the Pension Committee at its 27 November meeting.

7. Financial Implications

7.1 The costs incurred by the ESPF up to the end of September 2017 were £22,062 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.

8. Conclusion and reasons for recommendations

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

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Background Documents
None