

Report to: **Pension Committee**

Date: **27 November 2017**

By: **Chief Finance Officer**

Title of report: **Local Government Pension Scheme (LGPS) Pooling - ACCESS update**

Purpose of report: **This report provides Members with an update on the activities undertaken by the ACCESS Pool group.**

RECOMMENDATION – The Committee 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.

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 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, 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 are available on the Kent County Council website using the following link:

<https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898>

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 1.

3. Investment Manager Rationalisation

3.1 As reported to the last meeting of the Committee 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.

3.3 The OWG has received the bfinance report and used it to inform the CIV Operator Procurement. It is anticipated, given advice received from Squire, Patton, Boggs (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. 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 Financial Conduct Authority (FCA) for the establishment of the subfunds.

4. Contract Manager/Client Role

4.1 As part of the governance/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.

4.2 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.

5. Passive Procurement

5.1 The 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. A passive investment procurement paper will be considered as an exempt item at this meeting.

6. Financial Implications

6.1 The costs incurred by the East Sussex Pension Fund 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.

7. Conclusion and reasons for recommendations

7.1 That the Pension Committee considers and notes the content of this report and the progress on pooling since the last report.

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Background Documents - None