

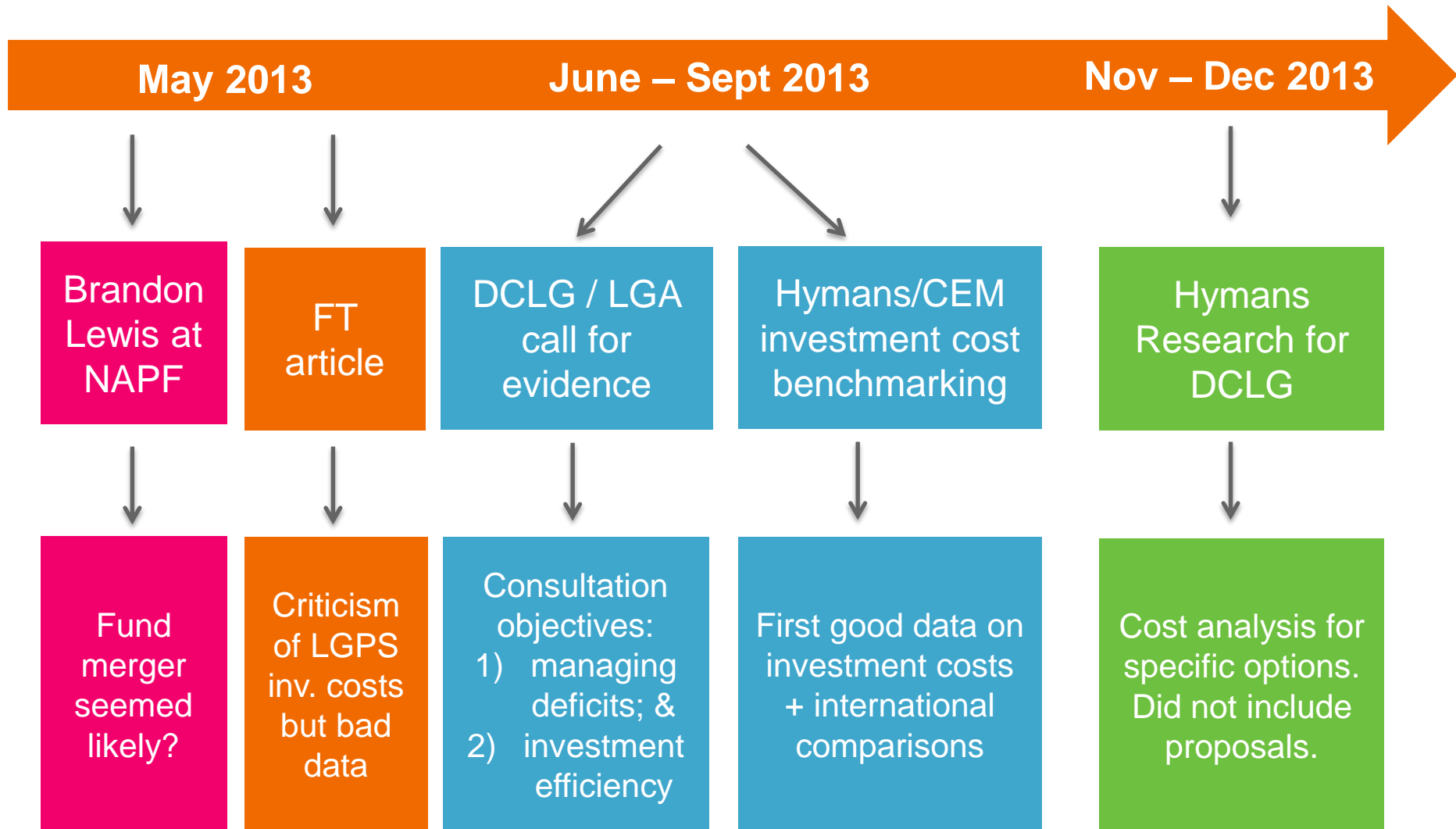
East Sussex Pension Fund



2015 Summer Budget: LGPS Investment Pooling Update

- Linda Selman
- William Marshall
- October 2015

The background



The background

Jan 2014

Feb 2014

May/July 2014

SAB analysis of CfE responses & letter to minister

London Councils give London CIV green light

DCLG consultation

Pre-election pause

Themes:
-use of asset pooling?
-use of passive?
-use of in-house?
Consider options for managing deficits

Collective Investment Vehicle for London Boroughs.
Voluntary participation.

Merger ruled out
Instead consulting on asset pooling and greater use of passive

Summer Budget 2015

“pool investments to significantly reduce costs, while maintaining overall investment performance”

“sufficiently ambitious” proposals

Oct 5 - Conservative Party Conference

“...we’re going to work with councils to create .. half a dozen British wealth funds spread across the country,”

“It will save hundreds of millions in costs, and, crucially, they’ll invest billions in the infrastructure of their regions.”



Latest government thinking?

Where we are now

- Fund merger
- Mandating passive
- Local decisions on manager choice
- Increased investment in infrastructure
- Pooling investments
- Local decisions on asset allocation



What government is looking for

- Pools with significant **scale** (c£30bn?)
- Significant **savings** (hundreds of millions annually?)
- More investment in **(UK)** infrastructure
- Explain how **governance** will work
- Expected savings **quantified** and evidenced
- Savings able to be **monitored**
- A fall back or **default for non participants?**
- A clear picture of **how various initiatives fit together**

Proposals must be “sufficiently ambitious”

Expected publication - November

- Statement of criteria (NOT consultation) for pooling proposals
 - Consultation is happening now ‘informally’ through discussions
- Consultation on
 - Investment Regulations
 - ◆ What needs to be liberalised to facilitate CIVs
 - Backstop legislation for funds not participating in pools
- Potentially a formal response on the last consultation

Working assumption: criteria for pooling

SCALE



+ simplicity



Current initiatives

Current initiatives – do they meet govt aims?

Initiative	Use / asset type	Scale / Participants
London CIV	Active and passive managers	Total assets £25bn+ Active equity £10-15bn Expected fee savings unknown London Boroughs mainly – others can buy?
Lancs / LPFA	Joined forces to -share resources (including in-house investments and liability management) -get greater scale (for fee reduction and co-investment)	Total assets c£10bn+ Other funds could participate/co-invest but not join governance? Examples of co-investment with others on infrastructure
Procurement / fee negotiation	Numerous examples of funds individually and jointly negotiating reduced fees on active and passive listed securities	Est fee savings TBC 2013 data out of date. Should be benchmark to 2013 when consultation started in earnest
Lothian / Falkirk	Joint investment initiative	Total assets c£5-6bn
PIP	Co-investment in infrastructure (directly)	Aiming for c£2-3bn assets initially Public and private sector participants
Procurement frameworks (National, SW, Croydon)	Advisors, custodians	Anecdotally, annual savings running into tens of millions

Other initiatives at early stage

Initiative	Use / asset type	Scale / Participants
Welsh CIV	CIV for use by Welsh funds – expected mainly for listed securities. Treasurers have been examining options for some time.	Total assets c£10b plus. Will this scale be sufficient for government or does it need to be wider?
Joint procurement	Passive management (equities)	Currently led by a small number of counties – could become a national initiative?
Fund mergers	Full merger	Current discussions between some small funds – not likely to generate adequately sized asset bases but may save on governance costs
Local and regional initiatives	TBC	TBC We are aware of a number of local regional groups exploring options for collaboration
Mutual investment management co	TBC Run by local authorities. Internal management.	Unknown.

Other joint ventures such as LGSS and Tri-boroughs do not currently involve investments, but they are likely to explore this.

Consider scale, expected total savings, how initiatives fit in broader picture & the combined effect



Objectives of the project coordinated by Hymans Robertson

Goals

...produce a well evidenced authoritative piece of work

...enable LGPS stakeholders to gather round one or a small number of options which satisfy the Government's criteria

...form a basis of discussion between LGPS and Government

Objective: joined up proposal to government

Purpose – joined up proposal to government

- **Compare pooling models**
e.g. 5x regional vs asset type pools
- Compare options within model
e.g. CIV or procurement for passive
- Show how current & future initiatives **fit together**
- Show how **governance** would work including local vs pool decisions
- **Quantify** and evidence expected savings
- Gain broad base of support

Participants

c25 administering authorities

Clients and non-clients

Broad range of interests:
External / internal management
Procurement vs CIV approaches
Regional vs asset type pooling
Responsible investment

Hymans' role

- Facilitation
- Ideas / review
- Project management
- Data analysis
- Quantification of benefits
- Liaison with government

Credible, widely
supported proposal

Local authorities own and
draft the report

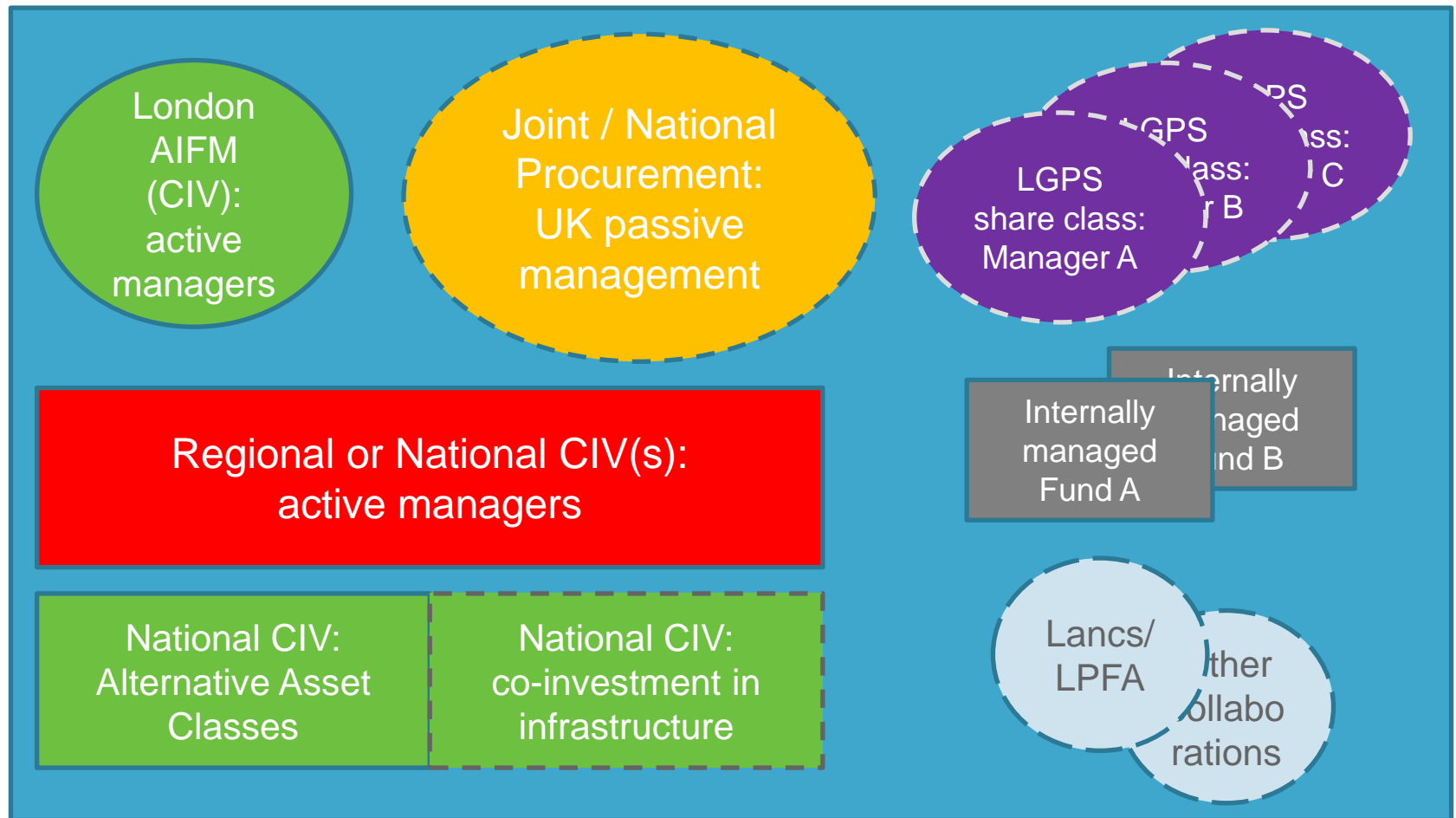
Local authorities speaking
with
one voice

Possible models for pooling

- 5 x regional pools
- 5 x mutual co (internal management)
- 5 x pools based on asset type
- Regional plus
- pools based on liabilities e.g. academies pool
- mixed economy?

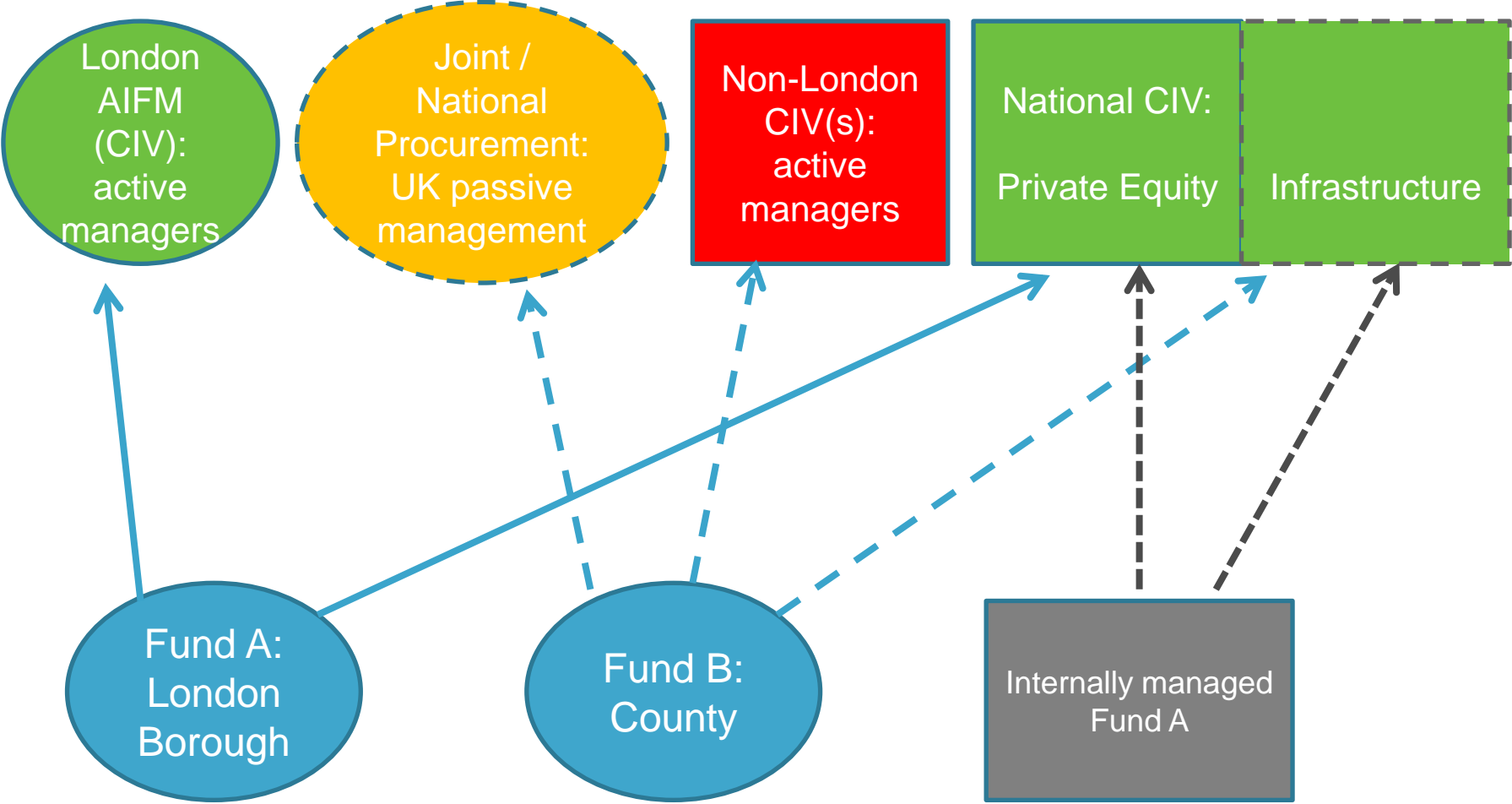
Government starting point 5 x regional pools?

“Mixed” model

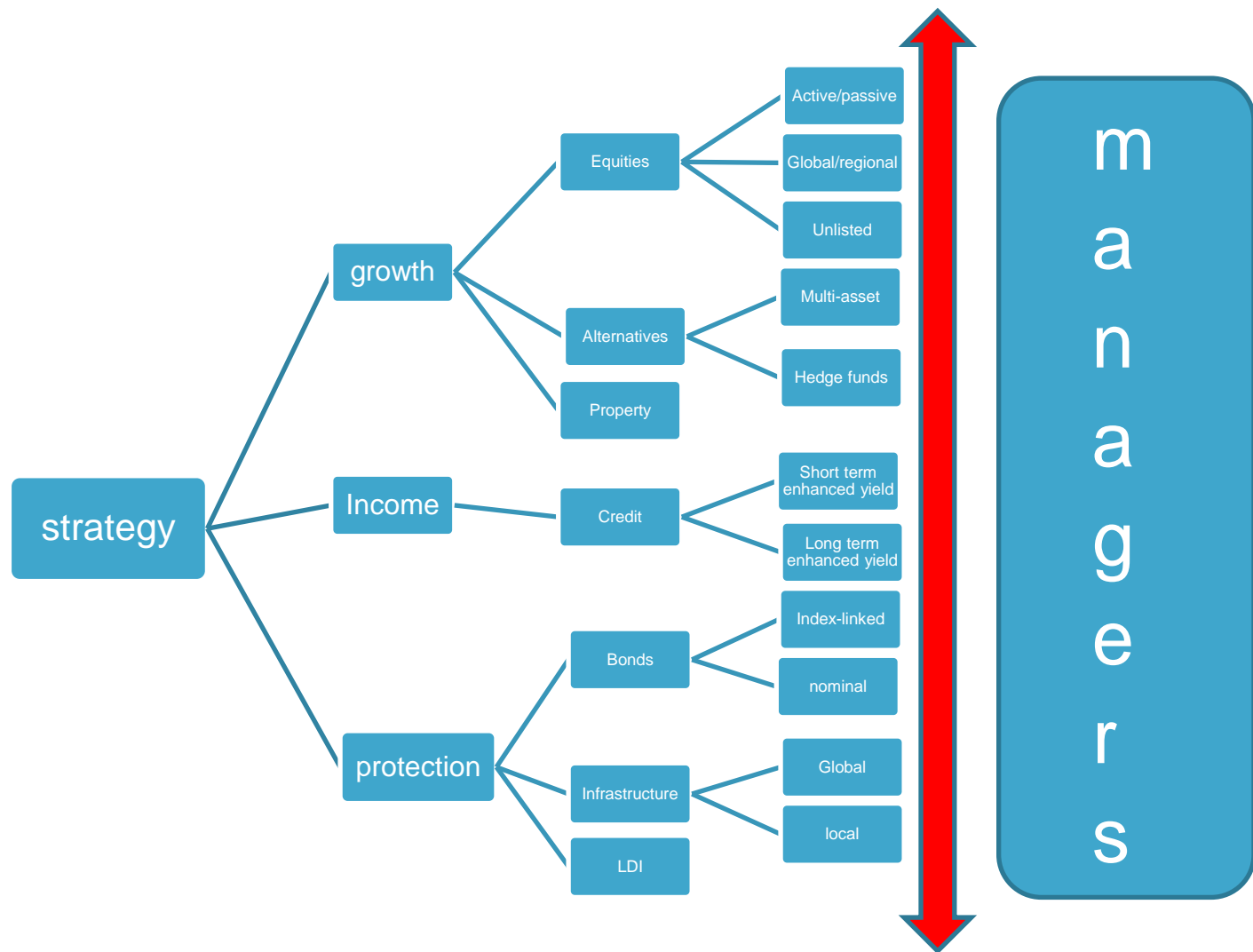


Will all example components meet government criteria in current / proposed form?

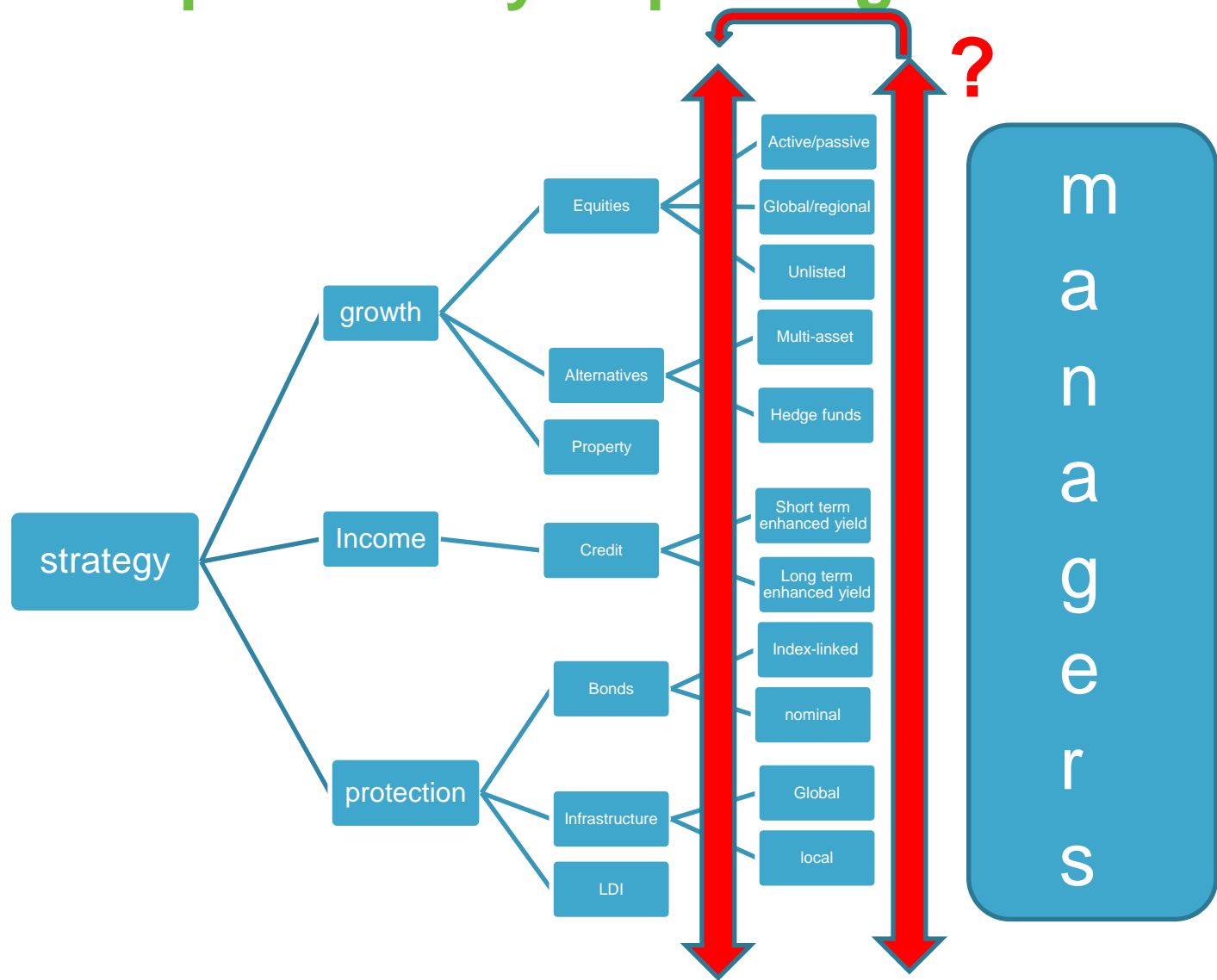
Mixed approach: individual funds choose building blocks to execute their strategy



Where does local decision-making end?








Where does practicality of pooling end?



Summary - Current government thinking?

Issue	Views?
Any exemptions from pooling?	No?
Place of internally managed funds?	Continuing “as is” not likely? Scale required e.g. via collaboration?
Governance and governance dividend	Assumption more likely to get through CIV
Procurement instead of CIVs?	CIVs preferred? May be persuadable on passive?
Flexibility to invest outside of pools?	Some? Say 5% of assets? Local investments/specific liabilities
What decisions remain local?	Asset allocation to meet objectives. Not manager selection
Regional pools vs alternatives	Starting point regional – alternatives have to be better (eg more savings?)
Infrastructure investment	Looking for more investment (UK/regional)
Min pool size £30bn? Flexibility?	Example – infrastructure

What should funds be doing now?

- Speaking to/collaborating with other funds 
- Supporting established initiatives 
- Business as usual on investment 
- Establishing PE/infrastructure programmes for the first time 
- Spending a lot of money on establishing a CIV/pool 



Thank you

Any questions?