

East Sussex Pension Fund



2015 Summer Budget: LGPS Investment Pooling

- William Marshall
- November 2015

The background

May 2013

June – Sept 2013

Nov – Dec 2013

Brandon
Lewis at
NAPF

FT
article

DCLG / LGA
call for
evidence

Hymans/CEM
investment cost
benchmarking

Hymans
Research for
DCLG

Fund
merger
seemed
likely?

Criticism
of LGPS
inv. costs
but bad
data

Consultation
objectives:
1) managing
deficits; &
2) investment
efficiency

First good data on
investment costs
+ international
comparisons

Compared fund
merger with
investment pools.
Quantified
possible cost
savings. Analysis
of performance.

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.

Forced fund
merger ruled out.
Instead consulted
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

October 5th - 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 for pooling** proposals (NOT a consultation)
 - 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. Sufficient scale or needs to be wider?
Joint procurement	Passive management (equities)	Currently led by a small number of counties (G7) – could extend nationally?
Fund mergers	Full merger	Current discussions between some small funds – not likely to generate adequately sized asset bases but may save on governance costs
Surrey, Cumbria / East Riding	TBC – Multi-asset pool. Includes internal management capability.	c£9bn Sufficient scale?
Local and regional initiatives	TBC – Multi-asset pools?	TBC There are a number of local regional groups exploring options for collaboration eg Project Brunel in South West (c£20bn)
Mutual investment management co	TBC Run by local authorities. Internal management.	Unknown.

Note: There are other joint ventures such as LGSS & Tri-boroughs which do not currently include investments.

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**
- Assess against government criteria
- Examine options for specific asset types
- Show how current & future initiatives **fit together**
- Show how **governance** would work
- Including local vs pool level decisions
- **Quantify** and evidence expected savings
- Short-list of preferred approaches

Active participants

- c35-40 LGPS Funds
- Leading funds (Counties, Mets, London)

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

Data gathered for
£150bn of LGPS assets
(total £200bn)

Helps Funds to speak with one voice and shape the outcome. Wide support gives credibility. **Local authorities own & draft the report.**



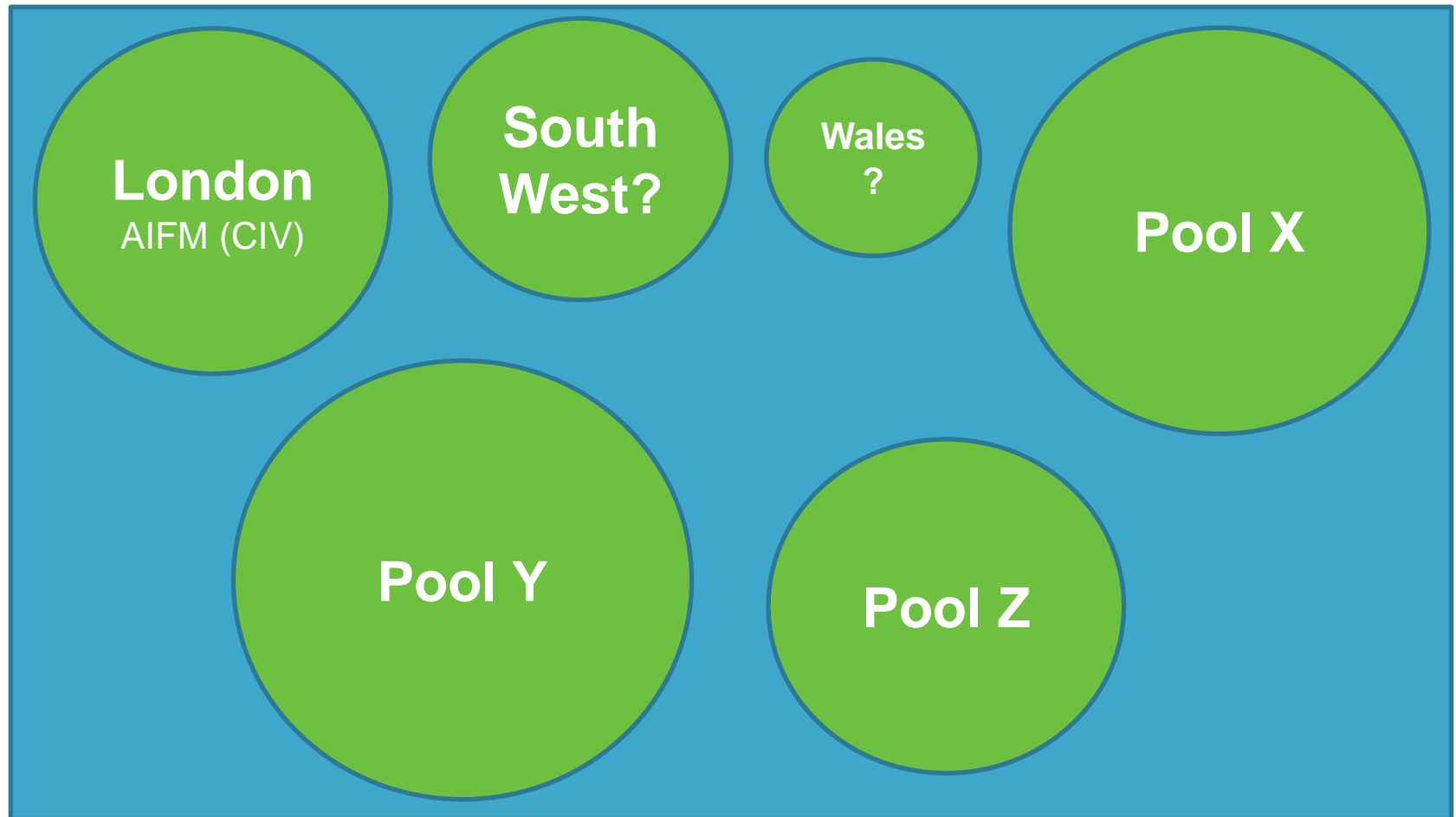
Models for asset pooling

Possible models for pooling

- 6 x regional pools or “like-minded”
- 6 x mutual co (internal management)
- 6 x pools based on asset type
- regional “plus”
- pools based on liabilities e.g. academies pool
- mixed economy?

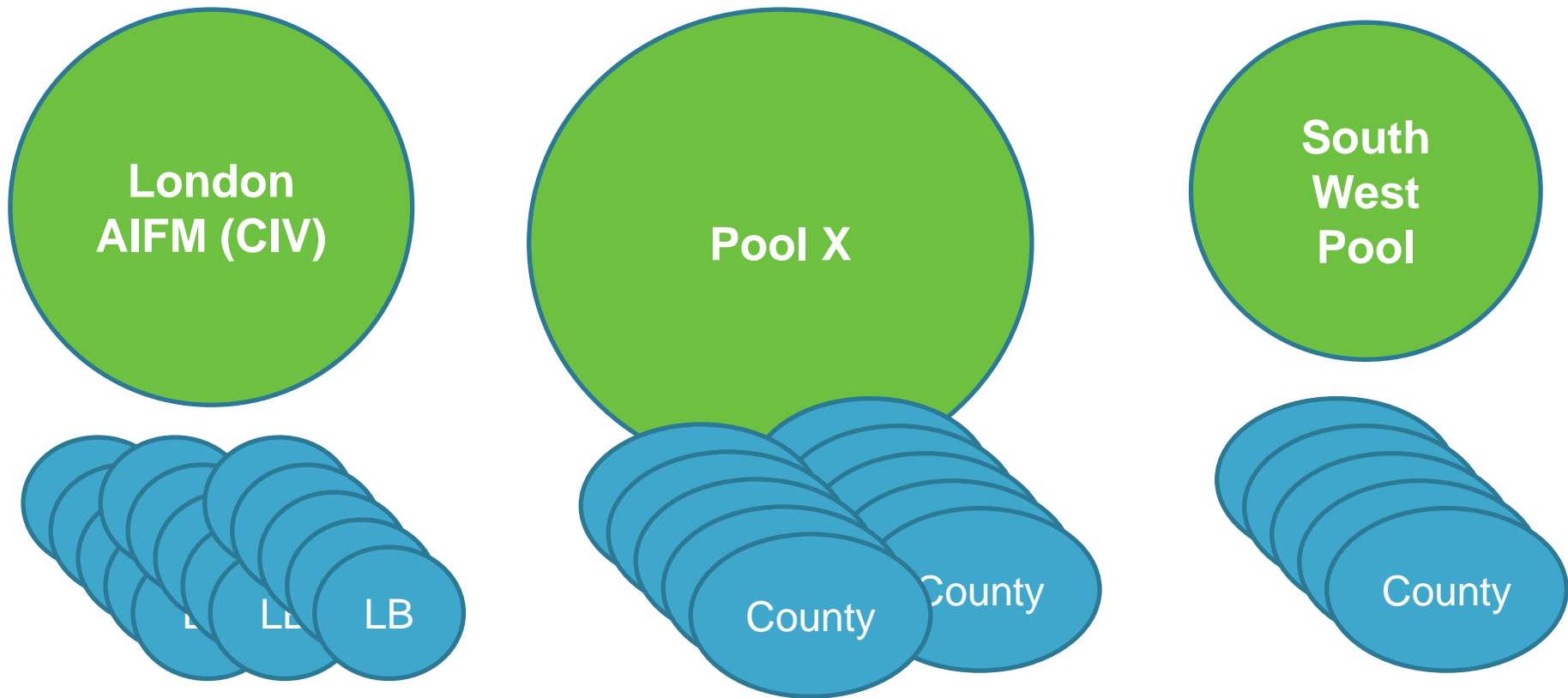
Government starting point 6 x regional pools?

Regional model



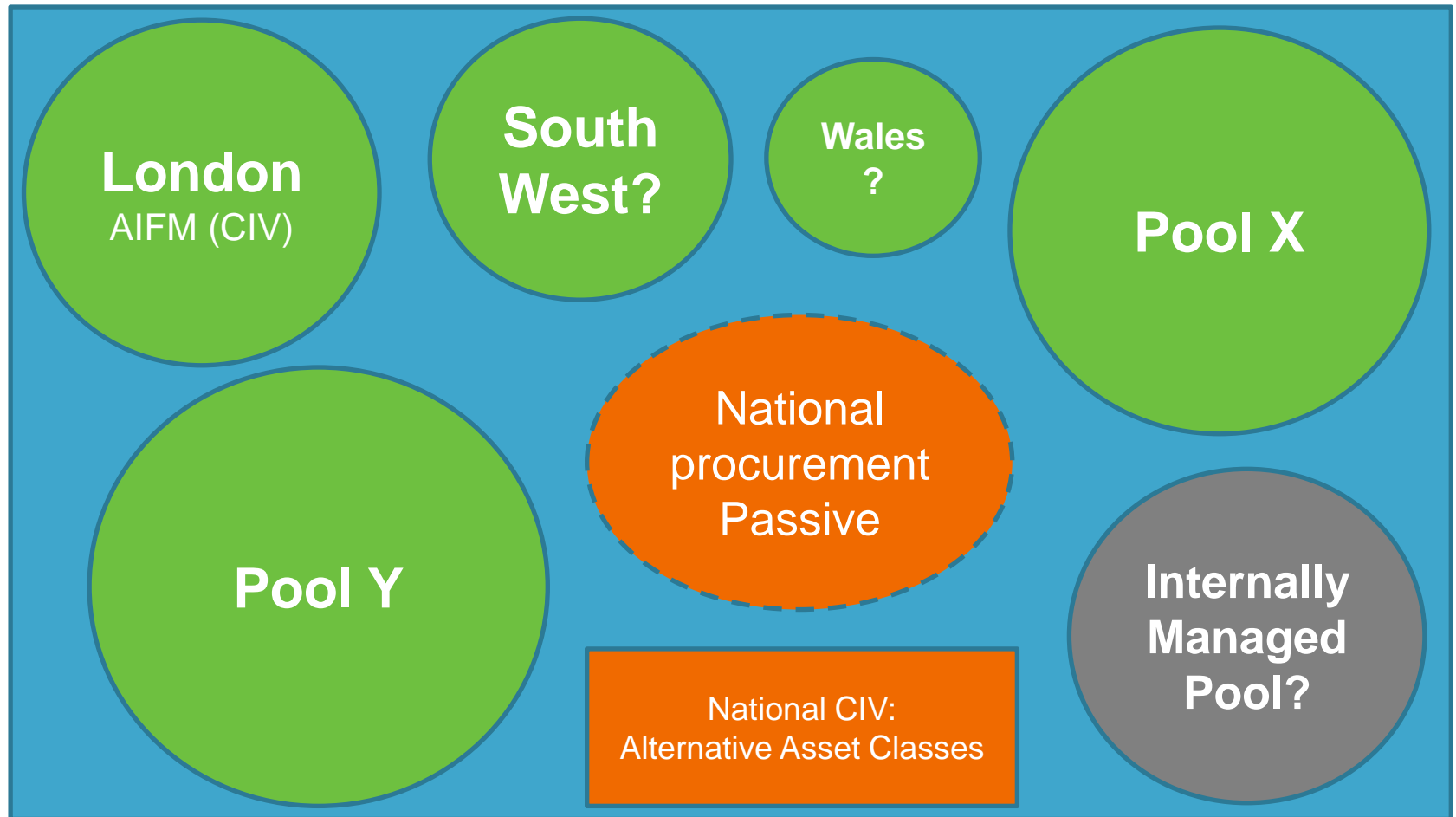
Regional or “like-minded” groupings
Multi-asset pools

Regional pools but each fund in same asset pool makes asset allocation decisions locally



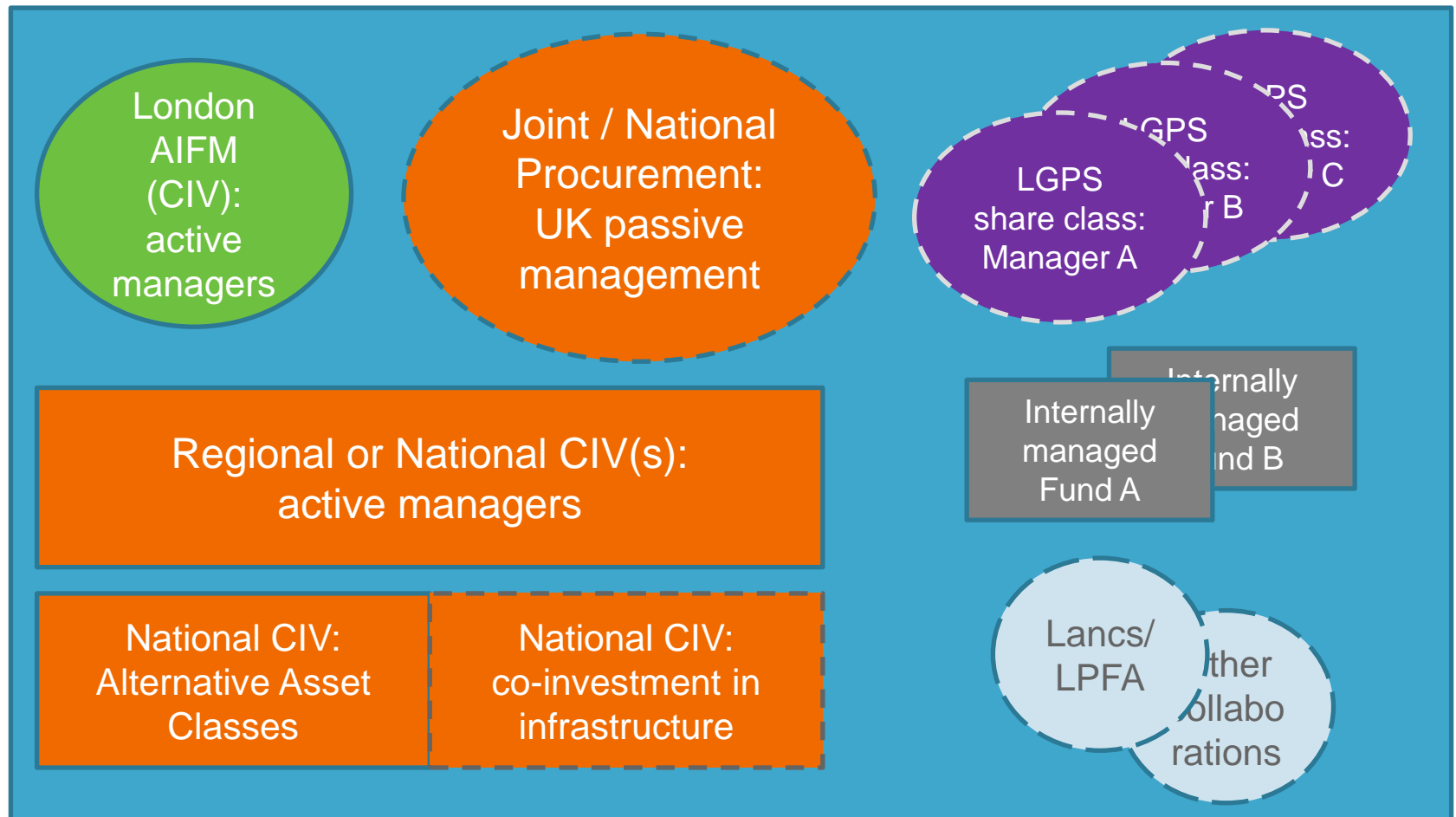
Each LGPS fund remains separate. Retain responsibility for asset allocation decisions, local liabilities, contribution setting, administration

Regional “plus” model



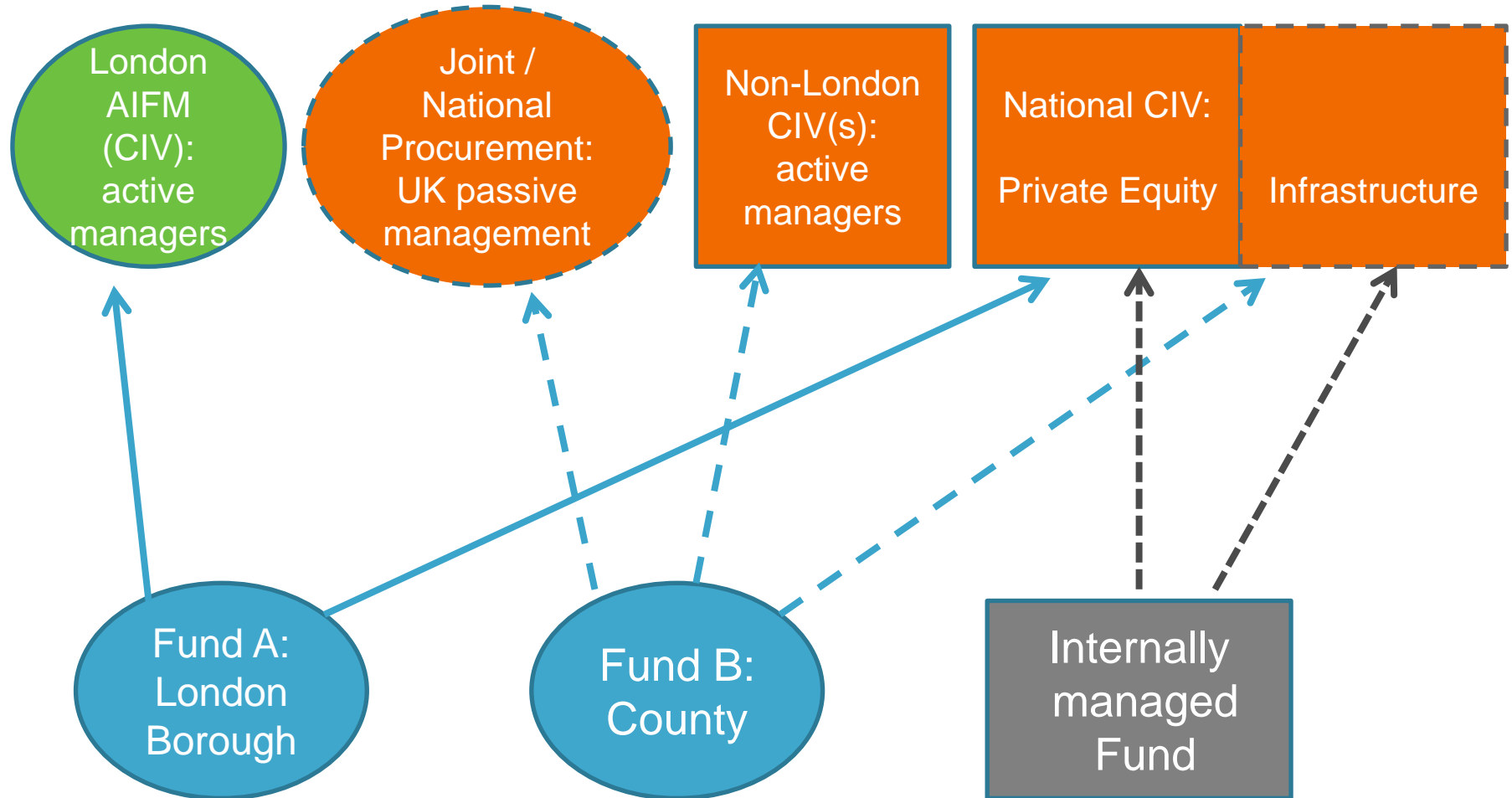
Regional multi-asset pools plus national pools
for things that benefit from even larger scale

“Mixed” model



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

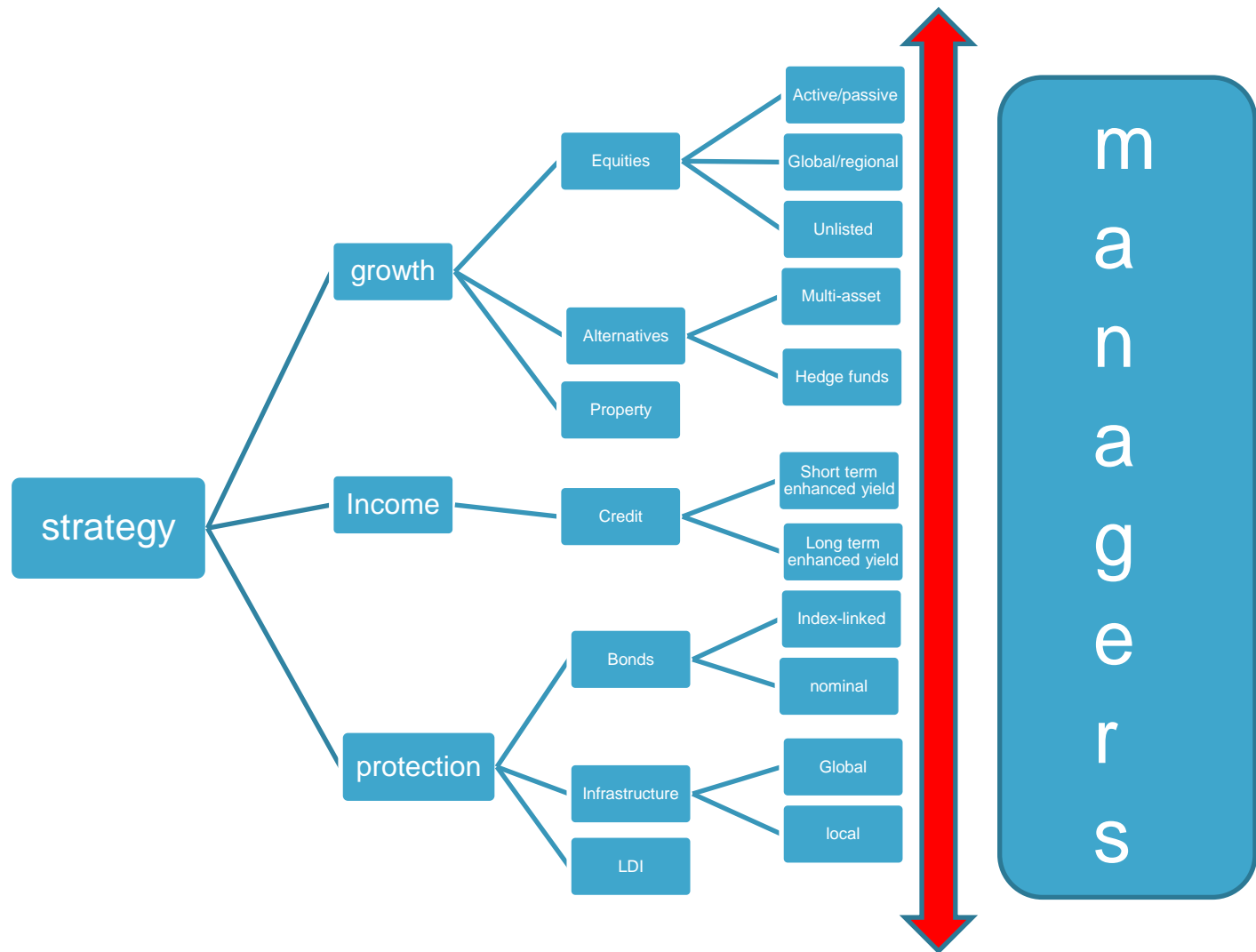
Mixed approach: individual funds may choose building blocks to execute their strategy



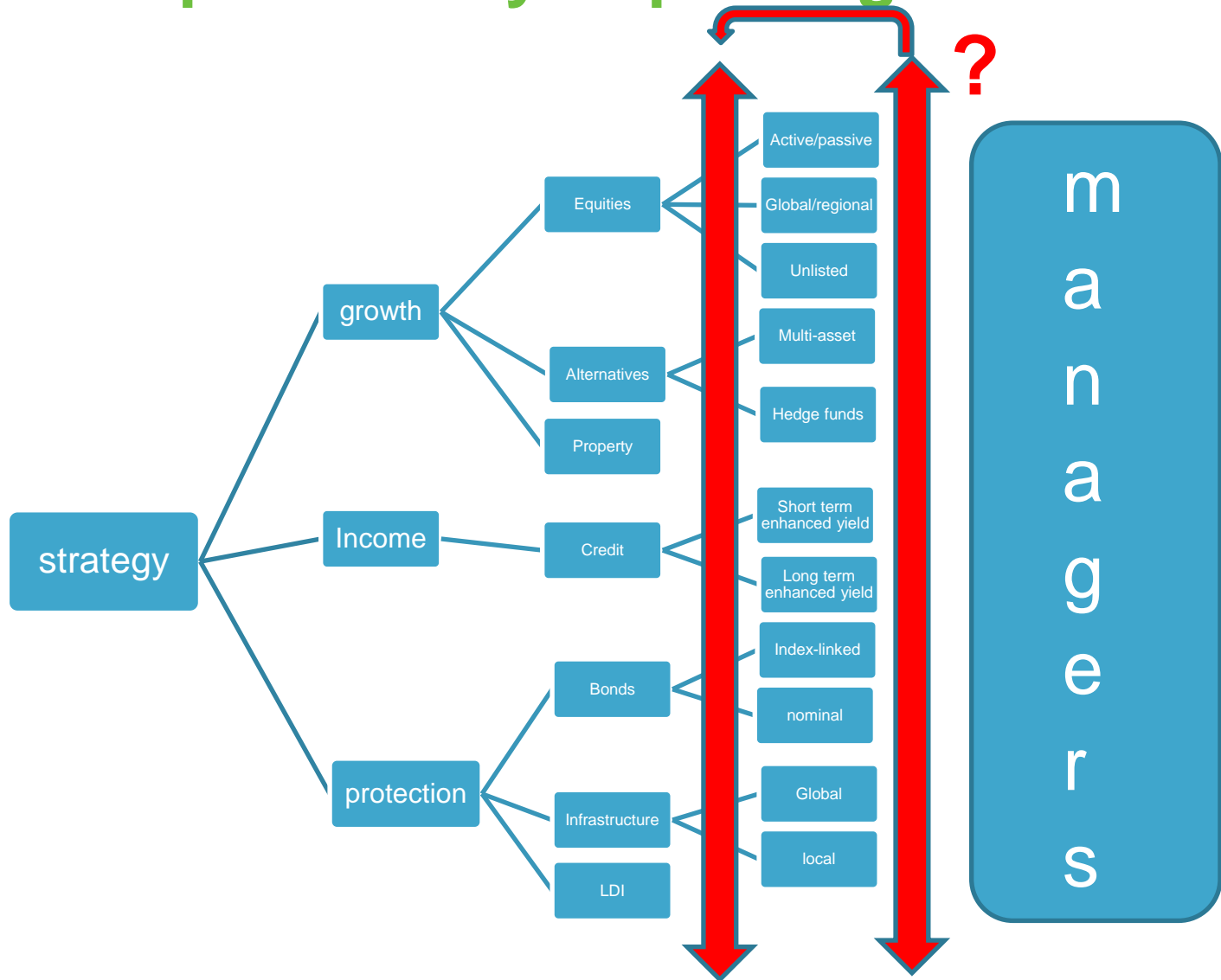


**Asset pools: What decisions
are decisions made locally?**

Where does local decision-making end?



Where does practicality of pooling end?











Summary and what LGPS Funds should be doing now

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 but 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	Want to make it easier to access and reduce cost. Will not prescribe amount or type
Min pool size £30bn? Flexibility?	Example – infrastructure would be less

What should you be doing now?

- Investigating options for collaborating with other funds 
- Supporting established initiatives 
- “Business as usual” on investment  
- Establishing PE/infrastructure programmes for the first time 
- Spending money establishing a CIV/pool 



Thank you

Any questions?