
Investments update

Cambridgeshire Pension Board

25 January 2017

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- Established in June 2012 and reached 100 employees (including five non-executive directors) in February 2016.
 - An unlisted investment:
 - Owned jointly with Trinity Hall (a college of the University of Cambridge). Each shareholder owns 50 percent of the ordinary share capital.
 - CPF has a seat on the Board.
 - Provides secured lending and deposit products to UK based SMEs.
 - Does not borrow money from the wholesale market and therefore does not require a credit rating.
 - Regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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- £17.5m of net interest income and £8.1m of profits after tax in the year to 31 December 2015.
 - 2016 forecast indicates significant increase in profitability by 31 December 2020.
 - CPF investment equity capital £12m and loan capital of £12.9m.
 - £1.5m preference share income received by CPF.
 - Carrying value in the accounts of CPF at 31 March 2016 is £43.0m
 - Grant Thornton valuation, which compared current and forecast earnings to the P/E ratios of comparable small banks.

For the public sector



For the public sector



Fund manager selection

- Pensions Committee – strategy
- Investment Sub Committee (ISC) - Implementation.
- Investment Regulations
- Professional support for decision making
- Asset Pooling
- National Framework for Passive Management

Link to strategy

Return v Risk

Style & Fit

Sustainability

Quality

Appropriate Fees

Fund manager selection

Drivers of Change

- Asset Allocation Review – Strategy re alignment.
 - J O Hambro - Growth
 - Dodge & Cox – Value
 - Global not regional
- Performance – sustained poor performance
 - Over mid to long term
 - Key man risk
 - Digression from style
 - Fundamental structural changes
- Procurement options
 - Segregated
 - Direct ownership, control, more costly, takes longer.
 - Pooled
 - More flexible, own units not stocks, quicker access and exit,
 - access to wider investment instruments, considered more efficient.

Investment Governance.

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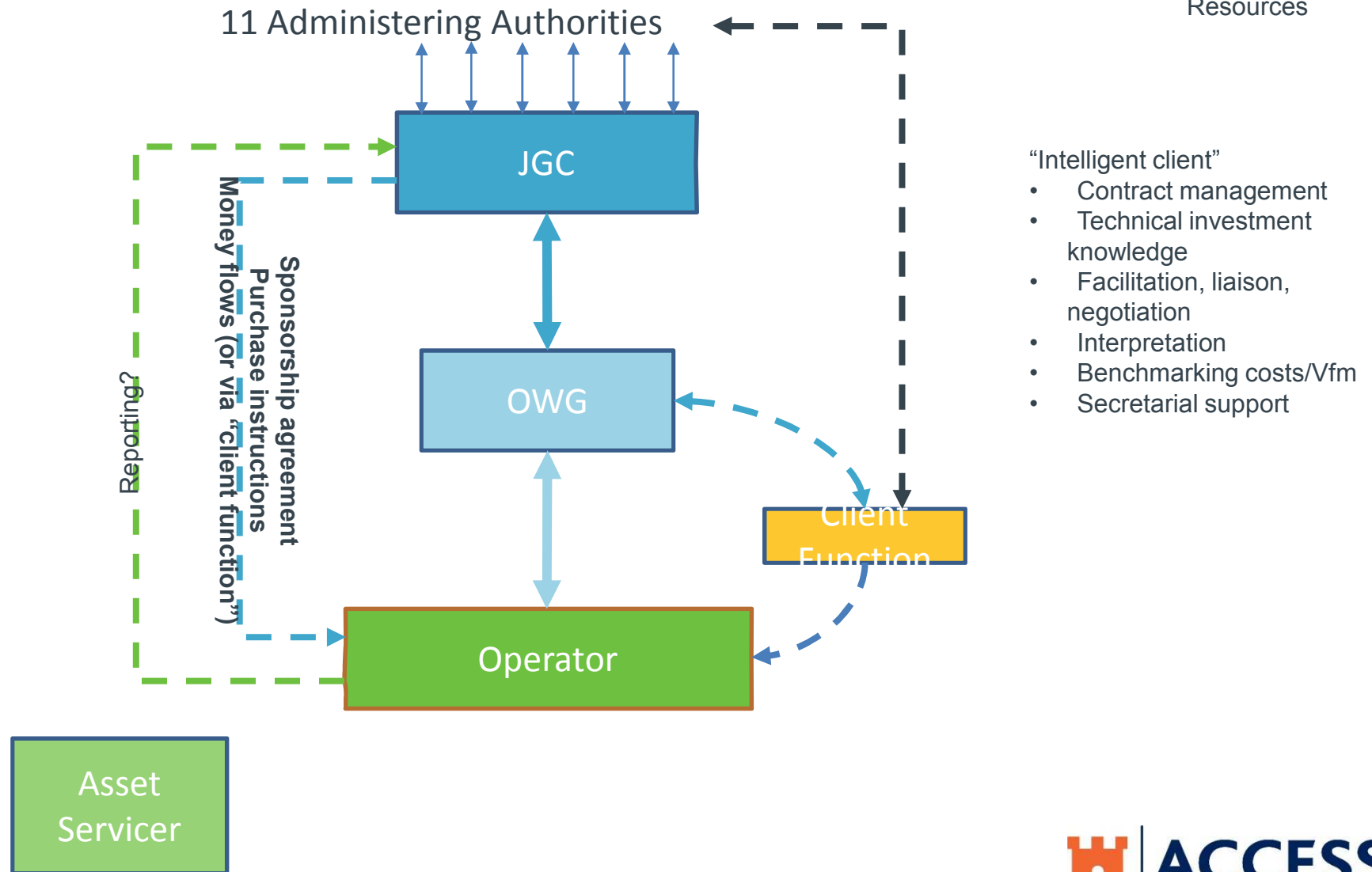


The participating authorities reflect a strong commitment to the project and share an approach to achieve common objectives based on a clear set of guiding principles.

PRINCIPLES

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

Democratic accountability and fiduciary responsibility are vital



"Intelligent client"

- Contract management
- Technical investment knowledge
- Facilitation, liaison, negotiation
- Interpretation
- Benchmarking costs/Vfm
- Secretarial support

For the public sector



Q9 Transparent reporting of fees and performance

- **Committed to full and complete public disclosure on costs and performance**
- Reports to be published on ACCESS website
- Use of third party benchmarking, such as CEM, where available and adds value to ACCESS
- Reporting of active performance versus the index (as done currently) and used as the basis of long-term investment decision making

	Description	Illustrative value for examples that follow
Operator Costs (a)	<ul style="list-style-type: none"> [x] basis points per annum on assets in the vehicles managed by the Operator (100bps equals 1%). Could differ between sub-funds in the vehicles although a flat rate might be more likely. All in fee will cover operator charges and the cost of third party asset servicers appointed by the operator (depository, custodian, fund accounting, etc). Paid by all admin authorities according to the assets they have in vehicles run by the operator 	4bps per annum
Operator Costs (b)	<ul style="list-style-type: none"> Minimum monetary amount [TBC some suppliers may have no minimum] 	£550k pa (or £50k per administering authority)
Investment manager fees	<ul style="list-style-type: none"> Fees are specified in Investment Management Agreement (IMA) between Operator and Investment Manager. Expressed as [y] basis points per annum (and potential performance fees). Deducted from assets in the sub-funds and paid to the managers. 	Vary from manager to manager (e.g. say 30bps per annum for listed equities; 100-200bps per annum for illiquid assets)
Establishment costs for sub-funds	<ul style="list-style-type: none"> Costs include legal advice and support for drafting prospectus and obtaining FCA authorisation. These costs are specific to sub-funds and are therefore charged to the specific sub-fund. Commonly amortised (spread) over a period of years. The sub-fund prospectus will set out what establishment costs will be charged to the assets of the sub-fund and over what period. Dilution levies can be used to charge exiting investors a fair share of costs outstanding (as well as any costs of sale of assets required to pay cash to exiting investors) 	Assume each authority bears its own via implicit charges made to assets invested in each sub-fund and appropriate dilution levies charged to exiting investors.
Asset transition	<ul style="list-style-type: none"> Costs incurred when move assets from manager A to manager B (initially when move assets into the vehicles provided by the Operator for the pool and on an ongoing basis when (for example) (i) a sub-fund manager is changed or (ii) individual funds choose to switch some of their assets between sub-funds / asset types) or (iii) an administering authority removes some or all of its assets from the vehicles provided by the Operator. Includes broker fees, market buy/sell spreads, taxes and other duties. 	Assume each authority bears its own asset transition costs.
"Other costs"	<ul style="list-style-type: none"> Costs of officers seconded to client function, legal and other external advisors (technical, investments, project management, tax, etc) 	£1.1m pa (or £100k per administering authority)

Q11 Transition costs - assumptions

Assets	Assumptions
Passive Life Funds	Existing holdings in Life funds maintained so no transition costs
Listed equity	All assets transitioned into pool. Assume consolidation of mandates such that existing manager mandates reduced from 25 to 11-14.
Listed fixed income	Pool solution developed to cover all listed fixed income requirements with a view to reducing number of managers and targeting costs savings. Aim for all assets transitioned to pool by 2021
Balanced, DGF, Multi asset	Pool solution developed to cover all multi-asset requirements with a view to targeting costs savings. Aim for all assets transitioned to pool by 2021
Property	Pool solution developed and assets transitioned by 2030 with exception of direct holdings maintained outside pool
Closed ended illiquid assets	Private equity, infrastructure, timberland Existing illiquid asset programmes allowed to wind down through natural run off. Pool solution developed for costs effective investment with all new commitments through pool from 2018

Asset class	Current cost (bps)*	Est savings (bps)	Rationale
Passive equity	8.5	7	Assume flat passive rate of 1.5bps offered to pool based on similar agreements for other pools
Passive fixed income	3.2	1.7	Assume flat passive rate of 1.5bps offered to pool based on similar agreements for other pools
Active UK equity	24.6	5	Pool saving based on reduced number of mandates and increased manager mandate sizes of >£1bn
Active Global equity	41.8	10	Pool saving based on reduced number of mandates and increased manager mandate sizes of >£1bn
Active fixed income – non traditional	14.7	0	Current allocation assumes very low fee based, difficult to achieve lower cost in pool
Active fixed income – traditional	30.2	15	Pool saving based on reduced number of mandates and increased manager mandate sizes of >£1bn
Balanced / DGF / multi-asset	TBC JW6	5	Actual costs under CEM analysis attributed to underlying asset classes. Potential for savings on DGF exposure but no saving assumed on Balanced/Multi asset approaches

- Current costs are ex performance fees.
- Savings assume equivalent reductions in either fixed or performance fee

Slide 15

JW6

do we have a number?

John Wright, 07/06/2016

Scheme Advisory Board

- **Focus on transparent and consistent reporting of fees:**
 - Perception of LGPS as a value led and innovative scheme.
 - CIPFA have issued guidelines for reporting in the statutory accounts;
 - Fee savings included in government's criteria for pooling.
- **SAB project**
 - voluntary code for investment managers
 - consistent and transparent reporting of fees
 - Assist LGPS fund disclosures recommended in guidance published by CIPFA.
- **SAB Consultation**
 - Listed Securities template
 - Unlisted Securities template in construction
- **CIPFA Disclosures**
 - Disclosure compliance in 2016-17 SOA