

**CAMBRIDGESHIRE
PENSION FUND**



Local Pension Board

Date: 5th July 2019

Report by: Head of Pensions

Subject:	ACCESS Asset Pooling Update
Purpose of the Report	To update the Pension Fund Board on asset pooling.
Recommendations	<p>The Pension Fund Board:</p> <ol style="list-style-type: none"> 1 Note the asset pooling update; 2 Note the attached agenda, minutes and public reports from the ACCESS Joint Committee meeting of the 11th June 2019; 3 Note the value for money asset pooling update.
Enquiries to:	<p>Name – Paul Tysoe, Investment and Fund Accounting Manager Tel – 07867902436 E-mail – phtysoe@northamptonshire.gov.uk</p>

1. Background

- 1.1 The Cambridgeshire Pension Fund has been working collaboratively with ten other Funds in the ACCESS pool to jointly meet the Government's published criteria on asset pooling.
- 1.2 This report updates the Board on the Access Joint Committee (AJC) meeting of the 11th June 2019 and developments up to the date of this report.
- 1.3 The appendices of this report contain the approved minutes of the AJC of 18th March 2019 along with the agenda and reports from the 11th June 2019 AJC.

2. ACCESS Joint Committee 18th March 2019.

- 2.1 The agenda for the AJC of the 11th June 2019 is shown at **Appendix A**.

2.2 In the public section of the AJC the minutes of the previous AJC, of 18th March 2019, were approved. In addition, reports on ACCESS Support Unit and Secretariat, Annual Report and the 2018/19 Out-turn and 2019/20 Business Plan Update were presented to AJC members. Public reports are in Appendix B to this report. The outcomes from these reports are:-

2.2.1.1 For ACCESS Support Unit and Secretariat (host authority arrangements) it was resolved that the current Secretariat support from Kent County Council will continue until July 2020.

2.2.1.2 The format and approach to the ACCESS Annual Report was approved. Approval and publication of the final version was delegated to Sharon Tan (Suffolk) in consultation with the Chairman and Vice-Chairman.

2.2.1.3 The AJC noted the 2018/19 Out-turn and Business Plan update, with a request that future reports contain more contextual information and explanation on budget changes.

2.3 The exempt section of the AJC consisted of an MHCLG Consultation update, ACS Implementation Update, Contract Management update, Access Support Unit (ASU) update, and Governance arrangements. These reports are included in the **exempt** Appendix C. The outcomes from these reports are:-

2.3.1.1 An update on the MHCLG consultation was given in the meeting and it was resolved that AJC members supported by officers should meet with representatives of the MHCLG.

2.3.1.2 An update on management of the Link contract by the ASU was given in the meeting which was noted.

2.3.1.3 A report on the ACCESS Support Unit was presented where it was agreed to seek to recruit the Director role from pool Officers.

2.3.1.4 The Governance report was presented resulting in the adoption of the Governance Manual and endorsement of the Inter Authority Agreement for referral to respective Monitoring Officers of each partner Authority in ACCESS for progression through their respective governance processes.

3. Value for money asset pooling update.

3.1 A request was made at the 3rd May 2019 Local Pension Board for a value for money update for assets held under the pooling umbrella.

3.2 It should be noted that asset pooling sub funds are still being developed with limited assets having moved under the asset pooling umbrella to date. The mandates that currently sit within asset pooling are the UBS Passive mandates and the Dodge and Cox Global Equity sub fund, with the J.O. Hambro sub fund to launch in July 2019. Therefore the current financial benefits of asset pooling are predominantly related to the Passive mandates.

- 3.3 There is a risk that the concentration on fee savings through asset pooling detracts from the true focus of investment strategy, which is to deliver net of fee returns in line or above the Fund target return. The Fund's investment strategy will spread risk across a range of asset classes and mandates and measure value for money in terms of net of fee returns on a risk adjusted basis.
- 3.4 The participation in the passive pooling procurement has delivered material savings to the Fund and enabled the Fund to benefit from a wider range of indices to reduce risk and enhance return. There are two tables included as a separate confidential Appendix D as they contain business sensitive information. Table A considers a simple like-for-like transfer from the legacy passive arrangements to an assumed similar matching arrangement in the pooled passive umbrella. Table B shows how the Fund benefited from the wider range of indices in the pooled passive umbrella, some of which have higher fees due to being more complex to operate, but provide diversification and target higher returns.
- 3.5 Table A shows the legacy passive mandate compared on a like-for-like basis to an allocation under the new provider, UBS and indicates like-for-like savings of £478k per annum.
- 3.6 Table B shows the Funds March 2019 range of indices and fees, applying the revised allocation taking advantage of a wider range of indices to add diversity and enhanced returns. Aggregate fee savings are slightly reduced to reflect the more complex nature of some of the indices, but still providing a comfortable £380k savings per annum, against the previous passive arrangement. This also includes accounting for the increased assets under management of £59m.
- 3.7 The value for money assessment to justify the slightly higher fees is demonstrated through the aggregate performance of the suite of indices of 7%, compared against the UK "passive" indices of 3.8% giving an outperformance of 3.2% and against North American equities of 5.5% an out performance of 1.5%. (As at 31 March 2019.).
- 3.8 The revised asset allocation within the passive mandate to date has therefore delivered material savings to the Fund and has added value through a higher overall return than the legacy allocation, even accounting for a growth in AUM and a more complex and slightly more costly passive mandate.
- 3.9 The Fund currently has two active global equity managers one of whom is in the asset pool the other expected to be in the asset pool in July 2019.
- 3.9.1 Dodge and Cox is currently the only value style active global manager in the asset pool, who operate a single fee rate for all customers worldwide. However LINK were able to negotiate a reduction in other costs to accommodate the operator fee providing a cost neutral fee position, remaining a pooled mandate rather than a segregated mandate.
- 3.9.2 J. O Hambro is a growth global equity manager expected to be in the asset pool in July 2019. Savings of £1.2m have been estimated by moving the current strategy into the asset pool as a segregated vehicle rather than a pooled vehicle, reflecting reduced running costs and the benefit from enhanced tax reclaim ability.

4. Recommendations

- 4.1 Note the asset pooling update;
- 4.2 Note the attached agenda, minutes and reports from the ACCESS Joint Committee meeting of the 11th June 2019.
- 4.3 Note the value for money asset pooling update.

5. Relevant Pension Fund Objectives

Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>
Continually monitor and measure clearly articulated objectives through business planning. <i>Objective 4</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>Objective 5</i>
Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment. <i>Objective 17</i>
Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy. <i>Objective 18</i>
Maximise investment returns over the long term within agreed risk tolerances. <i>Objective 19</i>

6. Finance & Resources Implications

- 6.1 The ACCESS budget is as set out in the 2018/19 Out-turn and Business Plan update report in Appendix B.

7. Risk Management

- 7.1 The Pension Fund Committee and Local Pension Board has a responsibility to ensure the ACCESS pool meets the Government's published criteria and guidance on asset pooling.
- 7.2 The risk associated with failing to keep the Board informed of pooling progress has been captured in the Fund's risk register as detailed below.

Risk NO	Risk	Residual risk rating
16	Failure to provide relevant information to the Pension Committee/Pension Board for informed decision making.	Green

- 7.3 The risk register covers other risks that are directly associated to Northamptonshire Pension Fund's investments. Risks associated with failure of the ACCESS pool to meet Government requirements will be considered upon the next review.
- 7.4 The full version of the Fund risk register can be found – <http://pensions.northamptonshire.gov.uk/governance/key-documents/Northamptonshire/>

8. Communication Implications

- 8.1 N/A

9. Legal Implications

- 9.1 Legal advice has been sought from various advisors in connection with the work streams of the ACCESS project including LGSS Law, the Monitoring Officer, Eversheds and Squire Patton Boggs.

10. Consultation with Key Advisers

- 10.1 In addition to the legal advisors set out in 8.1, advice has also been sought from Hymans Robertson, Mercer, B Finance and Muse Consultancy.

11 Alternative Options Considered

- 1.1 Not applicable.

12 Background Papers

- 2.1 Not applicable.

13 Appendices

- 3.1 Appendix A: Agenda for the AJC Meeting of 11th June 2019
- 3.2 Appendix B: Public papers for the AJC Meeting of 11th June 2019
- 3.3 **Exempt** Appendix C: Private papers for the AJC Meeting of 11th June 2019
- 3.4 **Exempt** Appendix D: Confidential appendix for Board members, Table A and Table B which contain business sensitive information.

Checklist of Key Approvals	
Has this report been cleared by Head of Pensions?	Mark Whitby – 20 June 2019



AGENDA

ACCESS JOINT COMMITTEE

Tuesday, 11th June, 2019, at 11.00 am

Ask for: **Joel Cook**

Committee Room 1 - Islington Town Hall
Upper Street, London N1 2UD

Telephone **03000 416892**

Tea/Coffee will be available 15 minutes before the start of the meeting in the meeting room

Membership

Chairman: Andrew Reid (Suffolk CC), **Cllr Adrian Axford** (Isle of Wight), **Cllr Susan Barker** (Essex CC), **Cllr Jonathan Ekins** (Northamptonshire CC), **Cllr Gerard Fox** (East Sussex CC), **Cllr Jeremy Hunt** (West Sussex CC), **Cllr Mark Kemp-Gee** (Hampshire CC), **Cllr Terry Rogers** (Cambridgeshire CC), **Cllr Ralph Sangster** (Hertfordshire) **Cllr Charlie Simkins** (Kent CC) and **Cllr Judy Oliver** (Norfolk CC)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Apologies/Substitutes

Apologies	Substitutes	LA
Mr C Simkins	Mr P Bartlett	Kent

2. Membership

To note the following membership changes:

Cllr Jonathan Ekins has replaced Cllr Graham Lawman as the Northamptonshire County Council representative.

Cllr Gerard Fox has replaced Cllr Richard Stogdon as the East Sussex County Council representative.

3. Election of Vice-Chair

4. Declaration of interests in items on the agenda

5. Minutes of the meeting held on 18 March 2019 (Pages 5 - 10)
6. Host Authority arrangements [11:10 - 11:15] (Pages 11 - 14)
7. ACCESS Annual Report [11:15 - 11:30] (Pages 15 - 18)
8. 2018/19 Out-turn & 2019/20 Business Plan Update [11:30 - 11:45] (Pages 19 - 28)
9. Motion to Exclude the Press and Public
PROPOSED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.
10. MHCLG Consultation update [11:45 - 12:00]
11. ACS Implementation update [12:00 - 12:20] (Pages 29 - 40)
12. Contract Management update [12:20 - 12:40] (Pages 41 - 56)
13. Access Support Unit update [12:40 - 13:00] (Pages 57 - 76)

Lunch [13:00 - 13:30]

14. Governance arrangements [13:30 - 13:50] (Pages 77 - 164)
15. Items for information or advice from the committee [13:50 - 14:00]

Date of next meeting

9 September 2019
Islington Town Hall

Joel Cook
Clerk to the Joint Committee
03000 416892

Monday, 3 June 2019