

Agenda

PENSION FUND COMMITTEE

Date: Wednesday 25 November 2015
Time: 2.00 pm
Venue: Mezzanine Room 1, County Hall, Aylesbury

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2 DECLARATIONS OF INTEREST To disclose any Personal or Disclosable Pecuniary Interests	
3 MINUTES of the meeting held on 23/09/2015	5 - 8
4 BUCKINGHAMSHIRE PENSION BOARD UPDATE Steve Mason	
5 PENSION FUND RISK REGISTER Julie Edwards	9 - 14
6 VERBAL FEEDBACK FROM LOCAL AUTHORITY PENSION FORUM Cllr David Martin	
7 LGPS REFORM Julie Edwards	15 - 22
8 FORWARD PLAN Julie Edwards	23 - 24
9 EXCLUSION OF THE PRESS AND PUBLIC To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)	



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10	CONFIDENTIAL MINUTES	25 - 28
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17	DATE OF NEXT MEETING Thursday 31st March 2016 (PROVISIONAL)	

If you would like to attend a meeting, but need extra help to do so, for example because of a disability, please contact us as early as possible, so that we can try to put the right support in place.

For further information please contact: James Batt on 01296 387541, email: jabatt@buckscc.gov.uk

Members

Mr J Chilver (C)

Mr T Egleton

Mr P Hardy

Mr S Lambert

Mr D Martin

Mr R Scott (VC)

Mr J Gladwin, District Council representative

Mr D Carroll, Thames Valley Police

Mr P McDonald, Milton Keynes Council

Minutes

PENSION FUND COMMITTEE

MINUTES OF THE MEETING OF THE PENSION FUND COMMITTEE HELD ON WEDNESDAY 23 SEPTEMBER 2015, IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 2.00 PM AND CONCLUDING AT 4.50 PM.

MEMBERS PRESENT

Mr J Chilver (Chairman), Mr P Hardy, Mr D Martin and Mr R Scott (Vice-Chairman)

OFFICERS PRESENT

Carolan Dobson, Independent Adviser
Julie Edwards, Pensions and Investments Manager
Mark Preston, Finance Director, Business Services Plus
Matthew Passey, Mercer Investment Consulting
Steve Mason, Chairman Buckinghamshire Pension Board
Leslie Ashton, Committee Assistant
Cheryl Platts, Pensions Communications Officer
Ade Oyerinde, Pension Manager, Grant Thornton Auditors
Ajeet Manjrekar, Global Thematic Partners
Asad Mawjee, Global Thematic Partners
Joshua Caughey, Mercer Investment Consulting

AGENDA ITEM

1. APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Peter McDonald, David Carroll, Trevor Egleton and Steven Lambert.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The minutes of the last meeting were agreed as a correct record.



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4. ANNUAL ACCOUNTS AUDIT

RESOLVED

The committee noted the Accounts for the financial year ended 31 March 2015, noted Grant Thornton's Audit Findings Report and noted the Letter of Representation.

Ade Oyerinde, Grant Thornton attended the meeting to present the report and summarised that the findings from the report were testament to Bucks County Council Officers who have a good working relationship with Grant Thornton. The report which can be viewed with the agenda was said to have identified no major issues. The audit work did not identify any issues in respect of level 3 investments which had been identified as a risk in the audit plan. The Council produced good working papers and a small number of minor disclosure amendments were made to the notes to the Fund's statements. All issues were clearly highlighted in the report provided. Ade Oyerinde confirmed that Grant Thornton expected to have all work completed within their set fees and had not anticipated that any additional fees would be added.

5. ANNUAL REPORT

Cheryl Platts presented the Annual Report prepared in accordance with CIPFA report guidance. Cheryl Platts summarised that the report which contained a greater amount of information than previous versions and in particular, included additional information on the administration of the pension fund. Members commented on the high quality, detailed information in the report.

RESOLVED

The Committee approved the annual report, following the accounts element being signed off by Regulatory and Audit Committee.

6. LOCAL PENSION BOARD UPDATE

Steve Mason, Chairman of the Pension Board spoke of the new board having been set up and approved by 1 April 2015 with the first meeting having taken place on 23 July 2015. Steve Mason advised that he would attend future Pension Fund Committee meetings as an observer and the Committee Chairman added that he would also attend Pension Fund Board meetings as an observer.

Steve Mason explained that the Board had met as a group for an initial training session to ensure Members were equipped with the appropriate knowledge. Further training for Members was said to be in the process of being explored to fill any gaps of knowledge. Members had been asked to complete a training needs analysis which would be analysed so that training could be focused on areas identified. It was said that the Board had asked the Fund's actuary, Barnett-Waddingham, to attend the next meeting to provide information and further training.

The Board had 8 Members. It was said that a communication strategy had not yet been developed with employers but the quarterly employers newsletter would contain information on the Board.

7. PENSION FUND COMMITTEE TERMS OF REFERENCE

RESOLVED

The Committee agreed the revised terms of reference as set out in Appendix 1 prior to Full Council approval.

8. FORWARD PLAN

Julie Edwards advised that she had sent Members an email last week in respect of the Government's announcement that a consultation would be held on pooling Local Government Pension Schemes' investments. It was said that a paper would be brought to the next meeting in November in relation to this. The Government were said to be looking for pools of £30 billion.

It was agreed that the Private Equity review would be discussed at the February 2016 meeting.

Members requested dates for the 2016 Pension Fund Committees.

Action: Committee Assistant to arrange prior to next meeting.

9. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

10. CONFIDENTIAL MINUTES

11. FUND MANAGER PERFORMANCE

12. GLOBAL THEMATIC PARTNERS REVIEW

13. FUND MANAGER PRESENTATION

14. FUND MANAGER REVIEW

15. DATE OF NEXT MEETING

Date of Next Meeting – 25 November 2015 at 2 p.m. in Mezz room 1, Aylesbury

CHAIRMAN

Pension Fund Committee

Title:	Pension Fund Risk Register
Date:	25 November 2015
Author:	Finance Director, Business Services Plus
Contact officer:	Julie Edwards 01296 383910
Electoral divisions affected:	N/A

Summary

The Risk Register identifies the key risks to the Pension Fund and is reviewed periodically by the Pension Fund Committee, the last review took place on 11 February 2015.

Recommendation

The Committee is asked to NOTE the Risk Assessment for the Pension Fund.

Resource implications

- 1 There are none arising directly from this report.

Other implications/issues

- 2 Members are asked to review the attached register to ensure that:
 - The descriptions of risks are still relevant;
 - The scores attributed to the impact and probability of the untreated risks are appropriate;
 - Risk treatment is adequate; and
 - The scores attributed to the impact and the probability of the residual risks are appropriate.
- 3 Risks relating to the Fund management are numbers P1-P17 and administration risks begin at P18. Three new risks, P16, P17 and P31, have been added. P16 highlights the risk of the forthcoming in/out referendum on Britain's membership of the European Union. P16 identifies the risks associated with the Government's



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proposal to pool local government pension fund assets. Risk 31 covers the risk that the Public Sector Pensions Act 2013 requires Annual Benefits Statements to be issued to Scheme Members by 31 August. A breach of this requirement will be reported to the Pensions Regulator for the year ended 31 March 2015. There is a risk that the Regulator will issue a fine although this is the position for most local authorities and the Regulator is aware that there were teething issues with setting up systems and templates for the 2015 ABS since this is the first year that ABSs have been issued with LGPS 2014 data. Members are asked to note Risk 25, the end of contracting-out of the Additional State Pension from April 2016 means that a Guaranteed Minimum Pension (GMP) reconciliation of the Fund's records with the HMRC's records will need to be completed by 2018. The reconciliation may result in identifying potential under/overpayments. This is a significant piece of work which will need to be resourced in the forthcoming months.

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

4 Not applicable

Background Papers

Pension Fund Committee 11 February 2015

<https://democracy.buckscc.gov.uk/documents/g6379/Public%20reports%20pack%2011th-Feb-2015%2014.00%20Pension%20Fund%20Committee.pdf?T=10>

RISK ASSESSMENT

Service Area	PENSION FUND	Updated 25th November 2015
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User notes: This spreadsheet has automatic conditional formatting which changes the colour of the scoring column, amber and red must go to the Pension Fund Committee

Ref	Description of risk, i.e. what is the threat or opportunity to the achievement of a business/project objective, use format "If <event happens> then <consequence of event>"	Assessment of untreated risk				Risk Treatment, i.e. what are we going to do about this risk		Assessment of residual risk			Owner
		Impact	Probability	Untreated score (don't write in here)	Proximity, i.e. when will this risk impact	Action	By when	Impact	Probability	Residual score	
P1	If the investment strategy does not produce the returns as envisaged / required then funds perform worse than expected, the deficit increases, pressure on employer contributions, pressure on Council Tax and reputational pressure on the Pension Fund	6	3	18	ongoing	Strategy reviewed formally every 3 years Review strategy more frequently - annual refresh Action Plan where issues arise Mini-valuation undertaken annually Appointment of Investment Consultant and Committee Advisor, Investment advice analysed. A long term view is taken with regards to the Fund's investment strategy.	ongoing	6	2	12	Pension Fund Committee and Finance Director, Business Services Plus
P2	If there is a significant downturn in a particular sector / geographical location then funds perform worse than expected, the deficit increases, employers contributions would need to be increased.	5	3	15	ongoing	Strategy reviewed every 3 years Review strategy more frequently - annual refresh Action Plan where issues arise. Managers closely monitored. Economic issues are being monitored. Closer monitoring of managers' views on Eurozone. Revised strategy implemented May 2014. Annual mini-actuarial valuation reported. Governance structures require meeting every Fund Manager on average 3 times per annum. Holistic reporting to Members - not just performance based.	ongoing	5	1	5	Pension Fund Committee and Finance Director, Business Services Plus
P3	If a new investment vehicle is not understood by the Pension Fund Committee then loss of control, limited governance exercised, poor controls / limited challenge and errors.	2	2	4	ongoing	Ensure adequate training. Periodic training needs analysis undertaken to support annual training plan. Committee Advisor supports the Committee members understanding of asset classes and investment issues.	ongoing	2	1	2	Pension Fund Committee and Finance Director, Business Services Plus
P4	If there are natural or man made disasters / problems which impact on the markets long term then loss of confidence, worried customers, lower returns and increased liabilities	2	4	8	ongoing	Governance structures provide for horizon scanning. Current investment strategy has built in flexibility that enables some degree of tactical decision making.	ongoing	2	4	8	Pension Fund Committee and Finance Director, Business Services Plus
P5	If too many early retirements then the ratio of pensioners to contributors gets worse, less able to meet obligations and pressure on contributions	2	5	10	ongoing	Early retirement options were reduced in line with 2008 LGPS regulations. Administration team monitor. The Fund's employers are responsible for the pension strain costs, not the Fund.	ongoing	2	2	4	Pension Fund Committee and Finance Director, Business Services Plus
P6	Public sector cuts could increase the number of early retirements, increase in administration costs and impact on revenue. Public sector cuts, member opt outs, localism and outsourcing could reduce the number of active members reducing contributions income. Contributions income could bring forward the date when the Fund has to use investment income to meet benefit payments.	3	4	12	ongoing	Review in light of austerity measures and other large employer strategies. Periodic meetings held with larger employers. Factor maturity of the Fund into investment strategy decisions, review Funding Strategy Statement every three years following the actuarial valuation.	ongoing	3	3	9	Pension Fund Committee and Finance Director, Business Services Plus
P7	If significant changes in government regulations occur, for example IAS19, then limited opportunities for innovation exist and resource is wasted supporting employers / members with non-value adding activities.	1	2	2	ongoing	Not within the Pension Fund's control. No further action required.	ongoing	1	2	2	Pension Fund Committee and Finance Director, Business Services Plus
P8	If there is fraud at some point in the "chain" (within the Council or Fund Management House) then loss of assets, damage to credibility and reputation and potential litigation.	4	2	8	ongoing	Monitoring activity undertaken (SAS70, AAF01/06) Relationships with fund managers to include assurance and risk management consideration. Detailed and embedded assurance framework in place.	ongoing	4	1	4	Pension Fund Committee and Finance Director, Business Services Plus
P9	If there is poor Fund management caused by poor selection, loss of key staff, change in process or not keeping up with the market then there will be poor performance, reduced assets, damage to reputation and increased deficit.	3	4	12	ongoing	Fund managers' performance actively reviewed quarterly. New investment strategy implemented May 2014. Benchmarking undertaken and research undertaken.	ongoing	3	2	6	Pension Fund Committee and Finance Director, Business Services Plus
P10	If there is an underestimation of pensioner longevity then there will be a failure to have high enough pension contributions and increased pressure on future contributions.	4	4	16	ongoing	Not within the Pension Fund's control Actuaries review projection of longevity regularly. The 2013 Actuarial Valuation mortality assumptions allowed for a long term rate of improvement in mortality rates. The next triennial valuation as at 31 March 2016 will be reported in Autumn 2016.	ongoing	4	3	12	Pension Fund Committee and Finance Director, Business Services Plus
P11	If inflation is significantly greater than that currently forecast then there will be lower bond returns, pay levels increase and the deficit widens.	3	4	12	ongoing	Review bond performance regularly. Economic commentators suggest that inflation will fall back to target in the medium term and that the factors driving the current spikes in inflation are temporary.	ongoing	3	3	9	Pension Fund Committee and Finance Director, Business Services Plus

Ref	Description of risk, i.e. what is the threat or opportunity to the achievement of a business/project objective, use format "If <event happens> then <consequence of event>"	Assessment of untreated risk				Risk Treatment, i.e. what are we going to do about this risk		Assessment of residual risk			Owner
		Impact	Probability	Untreated score (don't write in here)	Proximity, i.e. when will this risk impact	Action	By when	Impact	Probability	Residual score	
P12	If there is loss of confidence by employees and employers in the Pension Fund management then political fallout, seen as a poor performer, criticism from external audit and Public Interest Reports.	2	2	4	ongoing	Pensions Communications Officer role involves designing and delivering communications strategy. The Buckinghamshire Pension Board was established in 2015.	ongoing	2	1	2	Pension Fund Committee and Finance Director, Business Services Plus
P13	If stock market volatility exists at key points in the cycle e.g. at time of actuarial review then, deficit grows as does pressure on employer costs.	3	5	15	ongoing	Ongoing review more intense when markets are volatile. Key decision to be made in terms of timing of changes. Actuary using 'smoothing' effect which actively seeks to mitigate risks.	ongoing	2	4	8	Pension Fund Committee and Finance Director, Business Services Plus
P14	If a failure of a fund management house or nominee company is caused by financial issues or a catastrophic event e.g. terrorism or company policy change e.g. leaving the UK then there will be a short term performance failure, time and cost implications and a potential loss of opportunity if at the wrong moment.	3	2	6	ongoing	Ongoing review using governance structures described previously.	ongoing	2	2	4	Pension Fund Committee and Finance Director, Business Services Plus
P15	If officers do not follow policy decision or recommend inappropriate / radical policy decision then too great an exposure in certain areas will exist leading to greater volatility, break down of trust, policy decisions slowed, loss of opportunity and reputation damage.	3	2	6	ongoing	Effective scrutiny of officer activity by line management, Pension Fund Committee and audit	ongoing	2	1	2	Pension Fund Committee and Finance Director, Business Services Plus
P16	The government has promised that an in/out referendum on Britain's membership of the European Union will be held before the end of 2017. A referendum date has not yet been set, but the uncertainty in the prior to the referendum could impact on market volatility and the economy. If the outcome of the referendum is "out," then there could be further impact on market volatility and the economy.	3	4	12	ongoing	Ongoing review more intense when markets are volatile. Key decision to be made in terms of timing of changes. Actuary using 'smoothing' effect which actively seeks to mitigate risks.	ongoing	2	4	8	Pension Fund Committee and Finance Director, Business Services Plus
P17	The government's proposal to consult on pooling LGPS assets, could, if implemented badly have an impact on the value of the Fund's assets.	3	4	12	ongoing	Investment performance actively reviewed. Robust transition plan required.	ongoing	3	2	6	Pension Fund Committee and Finance Director, Business Services Plus
P18	LGPS 2014 introduced in April 2014. Although regulations have been issued there are still some areas where further clarification or guidance is required	4	4	16	ongoing	Not within the pensions sections control. Principal Pensions Officer to continually check for updated guidance and cascaded to the team. Where there is no guidance available then this will need to be communicated to members where they may be affected.	ongoing	3	3	9	Pensions & Investments Manager
P19	Lack of employer understanding of the new scheme and knowledge of the Service Level Agreement may cause incorrect information to be provided and additional queries from employers	3	4	12	ongoing	Training events have been provided to employers and the Employer Liaison Team provide ongoing support in addition to the Benefits Administration Team. Scheme information is also continually updated on the website	ongoing	3	3	9	Pensions & Investments Manager
P20	A lack of capacity due to staff losses or sickness could adversely affect the workload of the pensions section resulting in decreased productivity.	3	3	9	ongoing	The use of overtime and temporary staff where appropriate.	ongoing	2	2	4	Pensions & Investments Manager
P21	The risk that the pensions software (Altair) causes disruption due to system crashes etc. leading to calculation errors, delays and a loss of working time.	3	4	12	ongoing	Not within the Pensions and Investments Team control but errors can be recorded in order to notify supplier. Continuity arrangements in place. Regular client relationship management meetings.	ongoing	2	2	4	Pensions System Officer, Pensions & Investments Manager
P22	Software updates resulting from scheme changes may create errors in calculations thus resulting in more time spent checking and re-doing calculations.	4	5	20	ongoing	Not within the Pensions and Investments Team control but errors can be recorded in order to notify supplier. Continuity arrangements in place. Currently BAT are finding that a lot of manual intervention is needed. This is being dealt with by the systems team	ongoing	2	3	6	Pensions System Officer, Pensions & Investments Manager
P23	Staff retention. There is a risk of losing trained staff to other organisations due to a lack of flexibility in the career matrix.	2	4	8	ongoing	The Council has a Contribution Based Pay (CBP) system to reward high performance in a consistent and cost effective way. The Pensions Officer career matrix has recently been revised in line with CBP and also to make a smoother transition between ranges for Pensions Officers to progress	ongoing	1	3	3	Pensions & Investments Manager, Assistant Service Director - Finance Centre of Expertise
P24	Poorly performing employers/payroll providers can cause additional work on the pensions team by not providing information which they have a statutory duty to provide. This results in wasted time chasing employers and creating a backlog of work.	2	5	10	ongoing	The employer SLA's should help make employers provide the required information. The Pensions Administration Strategy includes a charging policy. 1-1 meetings with employers will be conducted to go over issues with information. Employer Liaison Team working on a risk basis,	ongoing	2	4	8	Pensions & Investments Manager, Assistant head of finance
P25	Additional work and disruption is caused due to outsourcing and changes in schools payroll providers creating losses of vital information. This results in a lot of extra work on pensions administration staff attempting to piece together information which should have been provided	2	5	10	ongoing	The employer SLA's should help make employers provide the required information. The Pensions Administration Strategy includes a charging policy. 1-1 meetings with employers being conducted to go over issues with information. Employer Liaison Team working on a risk basis, Responsibility on employers to manage their contractors.	ongoing	2	3	6	Principal Pensions Officer (Governance & Employer Liaison Officer)

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		Impact	Probability	Untreated score (don't write in here)	Proximity, i.e. when will this risk impact	Action	By when	Impact	Probability	Residual score	
P26	The increase of TUPE transfers / schools opting for academy status has resulted in an increased workload for pensions staff, mainly at a senior level. The Principal Pensions officer must deal with the admission agreements as well as liaising with external contractors and the fund actuaries. The range of employees involved differ between employer but range from 1 employee to hundreds.	3	3	9	ongoing	These TUPE Transfers are currently being dealt with. A post was created in 2013 to deal specifically with TUPE transfers therefore reducing the risk impact on the team	ongoing	2	4	8	Pensions & Investments Manager/Principal Pensions Officers
P27	The end of contracting-out of the Additional State Pension from April 2016 means that a Guaranteed Minimum Pension reconciliation of the Fund's records with the HMRC's records will need to be completed by 2018. This reconciliation may result in identifying overpayments/underpayments. If the reconciliation is not complete before the closing of the office this could result in the Fund being liable for GMP's which we should not be responsible for.	4	3	12	ongoing	Currently Principal Pensions Officer (Systems) has registered with the HMRC in order to receive bulk GMPs. A plan will need to then be put into place to deal with this	ongoing	3	3	9	Principal Pensions Officer (Systems)
P28	Tax legislation in respect of high-earners pensions contributions could result in a departure of high-earners from the Fund. High-earners leaving the Scheme could be perceived as senior management not advocating the benefits of the LGPS	2	2	4	ongoing	LGE has issued a leaflet setting out the implications of the tax changes for high-earners which has been forwarded to high-earners. Ongoing communications to scheme members highlighting the benefits of the Scheme	ongoing	2	2	4	Pensions & Investments Manager/Principal Pensions Officers
P29	If Admitted Bodies who joined the Fund prior to 1997 fail or if current Admitted Bodies reduce their active members to 0, then the Fund has no powers to ensure these organisation make good any deficit.	4	3	12	ongoing	Encouraging organisations against this route. Use of network groups to lobby for change in Regulations. DCLG admit that the issue needs looking at. Consultation paper prepared.	ongoing	3	2	6	Pensions & Investments Manager/Principal Pensions Officers
P30	The 3% on average increase employee pension contributions implemented, with effect from 1 April 2014, by increasing the tiers of contributions paid by mid/high earners could result in a departure of mid/high-earners from the Fund. Mid/High-earners leaving the Scheme could be perceived as senior management not advocating the benefits of the LGPS. During current period of low pay increases members may opt out due to pressures on household budgets.	2	2	4	ongoing	Not within the Pension & Investments Team's control, but there are ongoing communications to Scheme members highlighting the benefits of the Scheme.	ongoing	2	2	4	Pensions & Investments Manager/Principal Pensions Officers
P31	The Public Sector Pensions Act 2013 requires that Annual Benefits Statements are issued to Scheme Members by 31 August. A breach of this requirement will be reported to the Pensions Regulator for the year ended 31 March 2015. There is a risk that the Regulator will issue a fine although this is the position for most local authorities and the Regulator is aware that there were teething issues with setting up systems and templates for the 2015 ABSs since this is the first year that ABSs have been issued with LGPS 2014 data.	3	4	12	ongoing	Robust timetable, employer training, provide employer support to submit correct returns and review process.	ongoing	3	3	9	Pensions & Investments Manager/Principal Pensions Officers

Pension Fund Committee

Title:	Local Government Pension Scheme Pooled Investments
Date:	25 November 2015
Author:	Finance Director, Business Services Plus
Contact officer:	Julie Edwards 01296 383910
Electoral divisions affected:	N/A

Summary

To update Committee on developments regarding structural reforms of the Local Government Pension Scheme investments as a result of the Budget 2015 announcement.

Recommendation

The Committee is asked to NOTE the report.

Resource implications

- 1 There are none arising directly from this report.

Other implications/issues

- 2 The Chancellor on the 8 July 2015 announced in his budget statement the following:

2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.



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- 3 The consultation is due in November 2015, possibly as part of the Spending Review on 25 November, and is expected to include the following components:
 - Common criteria for pooling investments
 - Revised Investment Regulations
 - Backstop legislation

- 4 The common criteria are expected to include a minimum scale of £25/30 billion, governance arrangements and costs. The Government's intention is to have fewer, large pools of assets, possibly six regional funds; it is still open to non-regional solutions where there is a justifiable business case. Strategic asset allocation will continue to be determined at a local authority level which are the key driver of investment returns and funding levels, the pools will determine which assets are bought and sold and when. The revised investment regulations are expected to move away from the current restrictions on investments where maximum limits are placed on a particular type of investment that a Fund can invest in to a system more closely aligned to private sector pension funds. The backstop legislation, where required, is expected to give the Secretary of State power to direct where investments should be placed.

- 5 Responses to the consultation are due in February 2016, during 2016 more detailed work of the proposals which meet the criteria and are agreed will be undertaken with structures expected to be set up by the end of this Parliament. It is expected that illiquid assets, such as private equity, will be retained by Funds until the end of their distribution stage.

- 6 Mercer have drafted a paper on asset pooling and the LGPS, see Appendix 1, this sets out some background information and considers the merits of a variety of options that could adopted. Officers have met with a number of other Funds to discuss options.

- 7 A group of local authorities, with the help of Hymans Robertson, has formed a Joint Working Group (JWG) to work together on a project to deliver a joined up response to government on options for LGPS investment pooling. The project steering group provided the following update on the objectives of the project and progress made so far:
 - Project Pool – joined up local authority response to government consultation on pooling LGPS investments
 - 25 local authorities in the Joint Working Group own the report and are responsible for conclusions and any proposals to government. Another 10-15 are supporting the work-streams. The work-streams are Listed Equities (Active), Listed Equities (Passive), Fixed Interest, Other Alternatives & Private Equity, Property and Internal Management.

- Hymans' role is to provide technical support, project management and data analysis
- Data provided by LGPS funds and fund managers covers £140-150bn of LGPS assets
- Local authorities and Hymans committed to full transparency – further updates will follow
- Report will be delivered to government in January 2016 and will be made public

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

8 Not applicable

Background Papers

None

ASSET POOLING AND THE LGPS

The issue

The Budget in July included an announcement in relation to asset pooling within the LGPS. The Government's aim is to reduce costs significantly while maintaining overall investment performance.

A consultation is expected later in the year that will invite authorities to come forward with their own proposals but will also set out backstop legislation to cover those that do not come forward with "sufficiently ambitious" solutions.

Background

The report produced by Hymans Robertson included as part of the last consultation on cost savings suggested that £660m of savings could be made across the LGPS in England and Wales. This covered investment manager fees (£230m), exiting from fund of funds arrangements for alternatives (£240m) and transaction costs (£190m).

It is important to note that Hymans' numbers on investment manager fees and transaction costs assumed that all equities and bonds were moved to passive management. It appears that Government thinking has moved on here and that asset pooling is being seen as an alternative means to reducing fees by taking advantage of economies of scale (although whether backstop legislation suggests a passive approach remains to be seen).

Transaction costs, it was suggested in the report, could be reduced by moving to passive management; but of course this may (depending on the performance of active managers) be at odds with Government's stated aim of maintaining overall investment performance.

It is also perhaps worth noting that transaction costs are not an explicit cost paid by the LGPS (or any investor for that matter) in the way that investment manager fees are. They are accounted for within reported performance numbers (i.e. returns are measured after transaction costs).

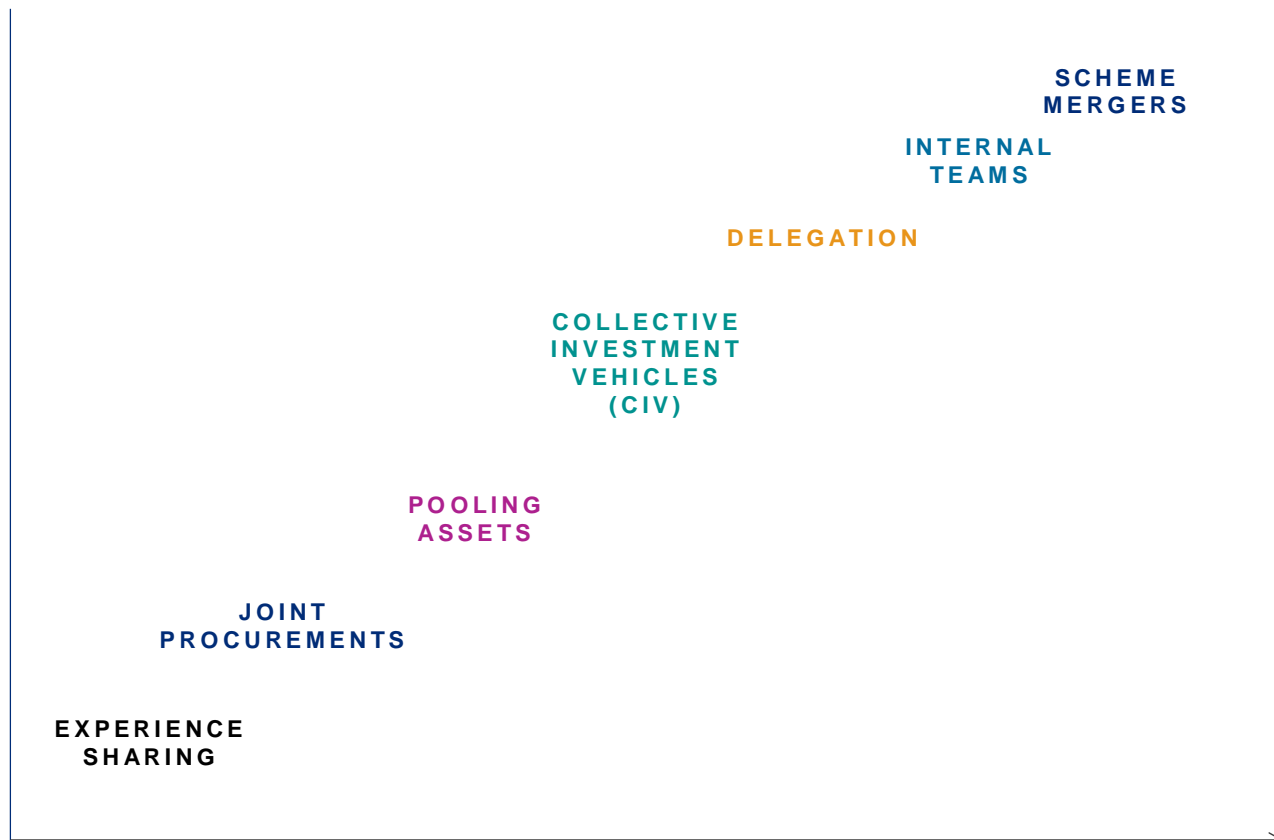
Nonetheless, the key message here is that the benchmark for cost savings seems to have been set at £660m which is the equivalent of the LGPS moving all its equities and bonds into passive management plus the unwinding of fund of fund arrangements for alternative investments.

This is a particularly high benchmark given that it is well known that the LGPS (on the whole) already commands competitive fee arrangements across equities and bonds in particular.

The Options

It seems likely that the consultation will ask authorities for very specific and quantifiable proposals on achieving (significant) cost savings. Failure to come forward with sufficiently ambitious plans will result in “backstop” legislation.

The graphic below indicates the range of options that could be considered.



The areas that are receiving most attention seem to be joint procurements, asset pooling and collective investment vehicles.

Joint procurements are becoming more frequent and can yield a degree of savings. The passive management market in particular is increasingly competitive, driven by the fact that there are a small number of players and that there are clear economies of scale within passive management. Joint procurements here might drive fees down by several basis points. (To provide some context, one basis point for an average LGPS fund of £2.5 billion equates to £250,000 and is unlikely to be significant enough to satisfy the Government’s request for “ambitious” plans).

Pooling assets in its loosest form is essentially one step removed from joint procurements and would mean agreements amongst Funds to appoint the same managers and to unitise each Fund’s holding. However, although there is some commonality of mandates across the LGPS, it is unlikely to be enough to simply pool assets in their current form. Fee discounts would likely result

but they may well be minimal, particularly in traditional asset classes; partly because many LGPS funds wield large mandates already and are often at the top of tiered fee scales but also because high quality managers with limited capacity will be unlikely to reduce fees. Asset pooling does not of itself provide a formal structure to ensure that this is a long standing agreement between Funds, so it does not feel like a long term solution.

Collective investment vehicles are a more formal version of asset pooling and may represent a longer term solution. They are housed within a (FCA) regulated structure that may either be “built” by the Funds or “rented” from a third party provider. There are a range of models available but the collective vehicle would have an investment committee (that could well be made up of representatives from each contributing Fund) that determines manager selection decisions. Depending on the model chosen, the economies of scale come from the collective assets of the Funds involved, but may well also leverage the scale of assets of the third party provider of the “rented structure”.

One of the key issues is that if assets are to be pooled, then the governance arrangements around manager selection and monitoring will likely change. This will be important to get right in order to fulfil the Government’s aim of maintaining investment performance. Regardless of the options chosen, one body will be responsible for manager issues for Funds who invest collectively together. Strategic (asset allocation) and funding issues are the ones that have most impact at a Fund level and these will remain at a local level.

Next steps

The date, format and the length of the proposed consultation are unknown; although it is expected before the end of the year. It appears that specific proposals will be required and so authorities, in our view, need to explore their options as soon as possible if they intend to avoid backstop legislation.

Jo Holden, Head of UK Public Sector

August 2015

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PENSION FUND COMMITTEE FORWARD PLAN

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Updated	9-Nov-15
Printed	12-Nov-15

25 November 2015, Mezz 1, 2pm

Aylesbury, County Hall

Agenda Item	Author	Cyclical Item?
Apologies / Declarations of interest / Minutes	--	
Buckinghamshire Pension Board Update	Steve Mason	4 monthly
Pension Fund Risk Register	Julie Edwards	6 monthly
Verbal Feedback from Local Authority Pension Forum	Cllr David Martin	Annual
LGPS Reform	Julie Edwards	No
Forward Plan	Julie Edwards	
Exclusion of Press and Public		
Buckinghamshire Pension Board Confidential Minutes		4 monthly
Fund Managers' Performance	Julie Edwards	Quarterly
Mirabaud Review	Mercer	No
Fund Managers Presentation	Mirabaud	No
Private Equity Update	Mercer	No
Investment Consultant Update	Julie Edwards	No
Date of next meeting / AOB	--	

February 2016

Aylesbury, County Hall

Agenda Item	Author	Cyclical Item?
Apologies / Declarations of interest / Minutes	--	
Treasury SLA	Julie Edwards	Annual
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Fund Manager Performance	Julie Edwards	Quarterly
Global Thematic Partners Review	Mercer	No
Fund Manager Presentation	Global Thematic Partners	No
Date of next meeting / AOB	--	

May 2016

Aylesbury, County Hall

Agenda Item	Author	Cyclical Item?
Apologies / Declarations of interest / Minutes	--	
Buckinghamshire Pension Board Update		6-monthly
Annual Accounts	Julie Edwards	
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		

PENSION FUND COMMITTEE FORWARD PLAN

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Updated	9-Nov-15
Printed	12-Nov-15

Fund Manager Performance	Julie Edwards	Quarterly
		No
		No
Date of next meeting / AOB	--	

July 2016	Aylesbury, County Hall	
Agenda Item	Author	Cyclical Item?
Apologies	--	
Declarations of interest / Minutes	Chairman	
Governance Update		Annually
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
		No
Fund Manager Presentation	TBA	No
Date of next meeting / AOB	--	

September 2016	Aylesbury, County Hall	
Agenda Item	Author	Cyclical Item?
Apologies / Declarations of interest / Minutes	--	Every meeting
Annual Accounts Audit	Julie Edwards /Grant Thornton	Annually
Annual Report	Cheryl Platts	Annually
Buckinghamshire Pension Board Update		4 monthly
Pension Fund Committee Terms of Reference	Mark Preston	Annually
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Fund Manager Performance	Julie Edwards	Quarterly
		No
Fund Managers Presentation	TBA	No
Date of next meeting / AOB	--	

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