

COUNCIL
12 MAY 2016**REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS
COMMITTEE**

LGPS Asset Pooling

1. In the July 2015 Budget, the Chancellor of the Exchequer announced the Government's intention to work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.
2. Following discussions with local government and the fund management industry over the summer, the Government prepared criteria against which the authorities' proposals for pooling would be assessed. Authorities were asked to develop proposals for pooling assets in line with the timeline detailed below.

The 4 main criteria are:

- Criteria 1: Asset pool(s) that achieve the benefits of scale c. £25bn
 - Criteria 2: Strong governance and decision-making
 - Criteria 3: Reduced costs and excellent value for money
 - Criteria 4: An improved capacity and capability to invest in infrastructure.
3. Strategic asset allocation will remain a local decision for the administering authority and local pension committee. The pool, through the appropriate Governance process that will be defined by the July submission will decide on investment manager appointments and the type and number of sub-funds. Elected members of each Fund will influence how each pool operates.
 4. Worcestershire County Council Pension Fund in collaboration with eight other local authorities under the brand 'LGPS Central' submitted their initial proposals to the Government by 19 February 2016.
 5. By 15 July 2016 Funds must make a final submission which fully addresses the criteria set out above, with enough information for the proposal to be evaluated by Government. Each pool must make a submission which covers the joint proposals and describes the proposed governance, structure and implementation plan. Each authority must submit an individual return which sets out the profile of costs and savings, the transition profile for the assets and the rationale for any assets which it proposes to hold outside the pool.

6. In developing a pooled solution, having a clear view on the legal/governance structure of the pool is critical, as it impacts on how the pool will operate in practice and how each Fund has oversight of the management and governance of the pool. In recognition of the importance of this decision LGPS Central jointly procured legal advice from Eversheds, along with the Borders to Coast pool, to consider the benefits and risks of different governance and operating structures for pooling.

7. Eversheds have advised that there are two main options for pools to consider:

Option 1 - A structure incorporating an FSMA (Financial Services & Markets Act) registered Collective Investment Vehicle (CIV)

Option 2 - A Joint Committee structure - Collective Asset Pool (CAP)

8. Having considered Eversheds' legal opinion with regards to CIV and CAP options, the unanimous view of all participating Funds in LGPS Central is to recommend that the LGPS Central Pool be structured under a regulated CIV structure (Option 1).

9. The Committee has approved the CIV structure (Option 1) as the preferred pool structure and the Chief Financial Officer has been authorised to support the development of the submission of the Pool to Government on that basis.

Pension Investment update

10. The Committee has noted the Independent Financial Adviser's fund performance summary and market background.

11. The Committee has noted the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel, namely JP Morgan – Emerging Markets and JP Morgan - Bonds. Whilst it is recognised that portfolio performance has substantially improved over recent quarters, Nomura will remain to be monitored until a further period of sustained outperformance from both the Japan section of the portfolio as well as the developed Asia ex-Japan section is achieved.

12. Taking into account Capital International's underperformance against the required target over the medium to long-term and the loss of confidence in Capital's investment process, the Pension Investment Advisory Panel made a recommendation to terminate the Capital International mandate. The portfolio assets will be transitioned to the North America section of the LGIM passive equity portfolio pending the forthcoming Strategic Asset Allocation review.

13. The Committee has approved the recommendation from the Pension Investment Advisory Panel to terminate the Capital International mandate with assets transitioned to the North America section of the LGIM passive equity portfolio.

14. In March 2016 contracts were signed with Walton Street (US Property Debt) committing the remaining £27.5m out of the original £200m allocation to Property and Infrastructure. The Committee has noted the update on the appointment of the Walton Street.

Administering Authority – Administration update

15. The Committee has noted the general update from the Administering Authority in relation to Membership, End of Contracting Out/Change to National Insurance Contributions from 6 April 2016, End of Year Requirements, Pension Fund Valuation 2016, the 'Tell Us Once' project, Newsletters, Member Self-Service, and New Employers' Workshop.

Mr R W Banks
Chairman

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Pensions Committee held on 27 April 2016.