



ASSET POOLING: THE STORY SO FAR

Border to Coast Pensions Partnership

Warwickshire Pension Fund Annual General Meeting

November 2023

INTRODUCTIONS



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9 years with Mercer as an Investment Consultant
A qualified Chartered Financial Analyst



THE PURPOSE OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

- The LGPS exists to pay the pensions of its 6.1 million members in an affordable and sustainable manner.
- Over 18,000 employers participate in the LGPS.
- It has c.£364bn of assets, making it one of the largest pensions schemes in the world.

lgps

Contact your fund

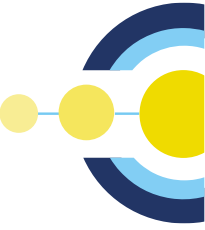
Home About the LGPS > Your pension > Help and Support >

For members of the Local Government Pension Scheme in England and Wales

About the LGPS

The LGPS is a national pension scheme for people working in local government or working for other employers that participate in the scheme.

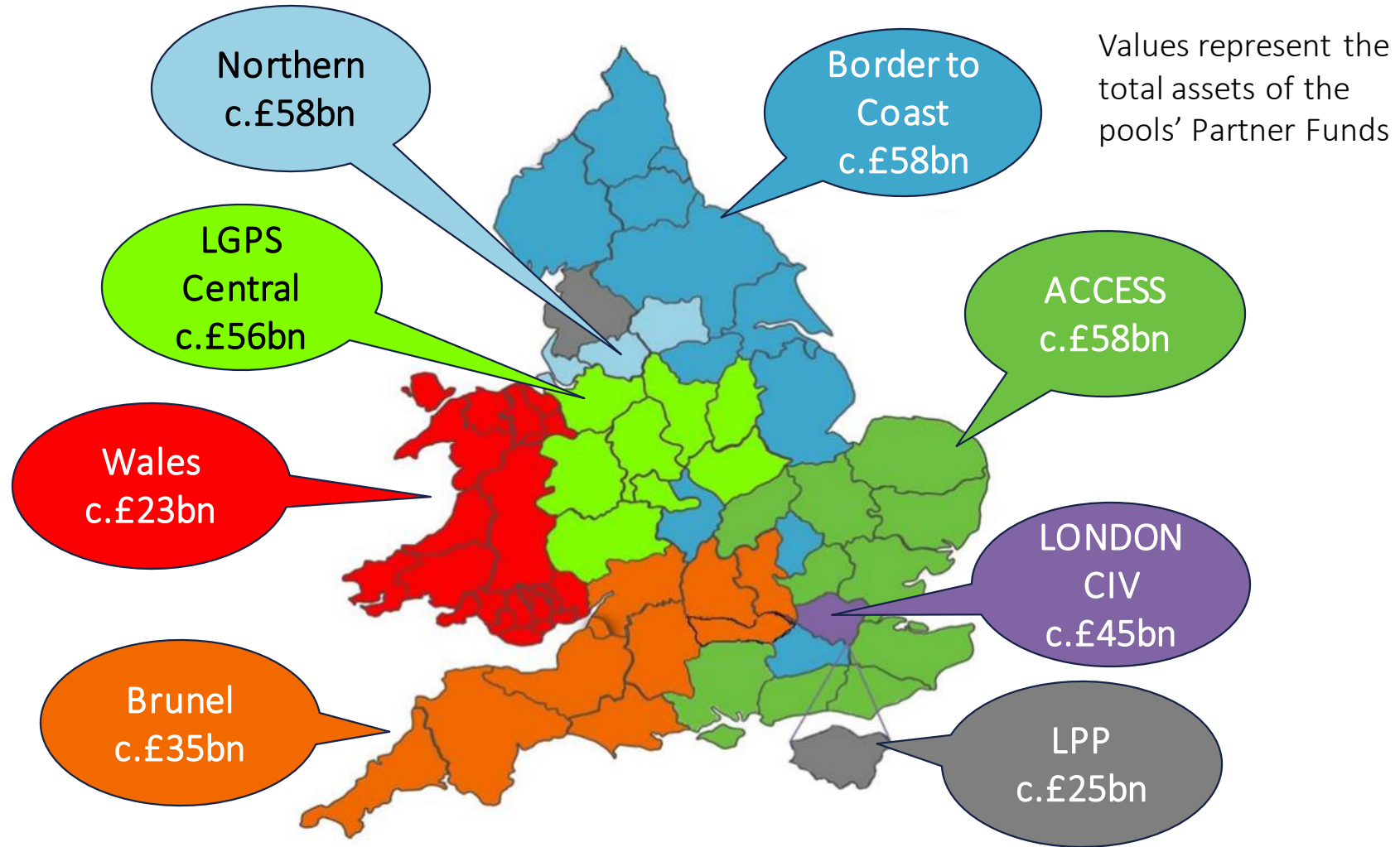
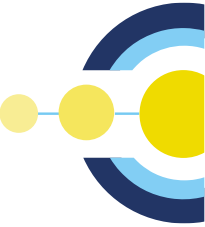
WHAT IS POOLING?



July 2015 Budget: Central Government announce the intention for LGPS to pool investments

- A. Asset pool(s) that achieve the benefits of scale
- B. Strong governance and decision making
- C. Reduced costs and excellent value for money
- D. An improved capacity and capability to invest in infrastructure

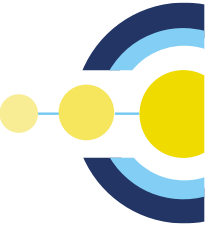
INTRODUCING THE POOLS



Sources:

Border to Coast (March 2023): Annual Report and Accounts 2022/23, *Access (March 2023):* www.accesspool.org, *London CIV (March 2023):* www.londonciv.org.uk
LPP (June 2023): www.localpensionspartnership.org.uk, *Brunel (2023):* www.brunelpensionpartnership.org, *Wales (March 2023):* www.walespensionpartnership.org,
LGPS Central (March 2023): www.lgpscentral.co.uk, *Northern (March 2022):* www.northernlgps.org

THE DEVELOPMENT OF POOLING THROUGH BORDER TO COAST



Original Guiding Principles

1. Meet Government aims (governance, RI, VFM and infrastructure)
2. One Fund, One Vote
3. Funds retain governance role and ownership of asset allocation
4. Generate improved net of fees risk adjusted performance
5. Internal management capability
6. Improved resilience and capacity over existing structures
7. Shared team in one location



Jan 2015 – July 2016

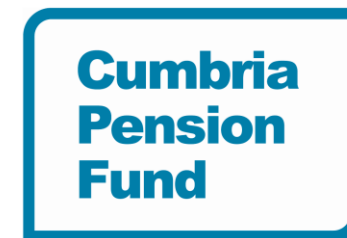
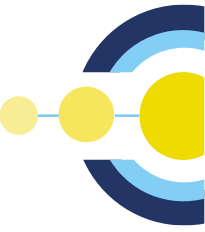
July 2016 – Dec 2017

Dec 2017 – July 2018

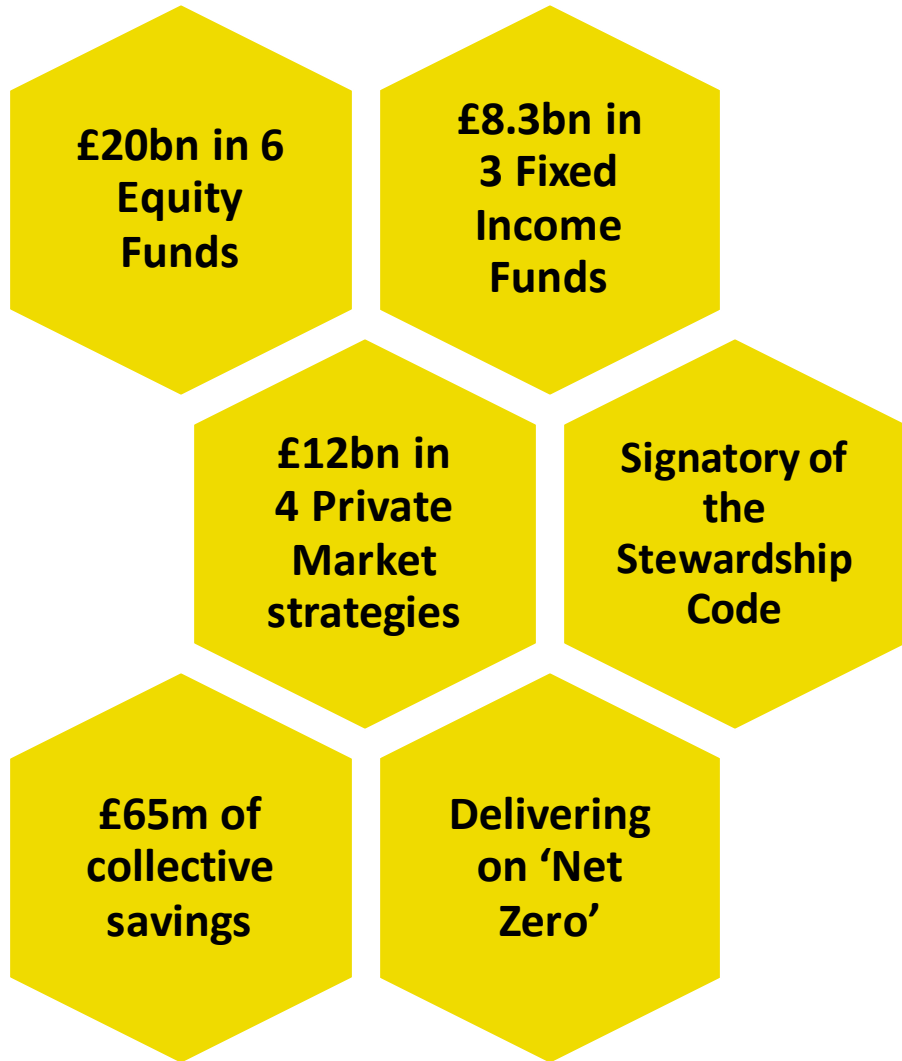
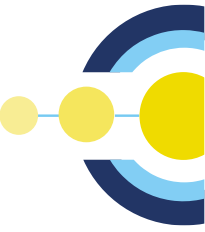
July 2018 – 2023/4

2025 and beyond

OVERVIEW: YOUR PARTNER FUNDS

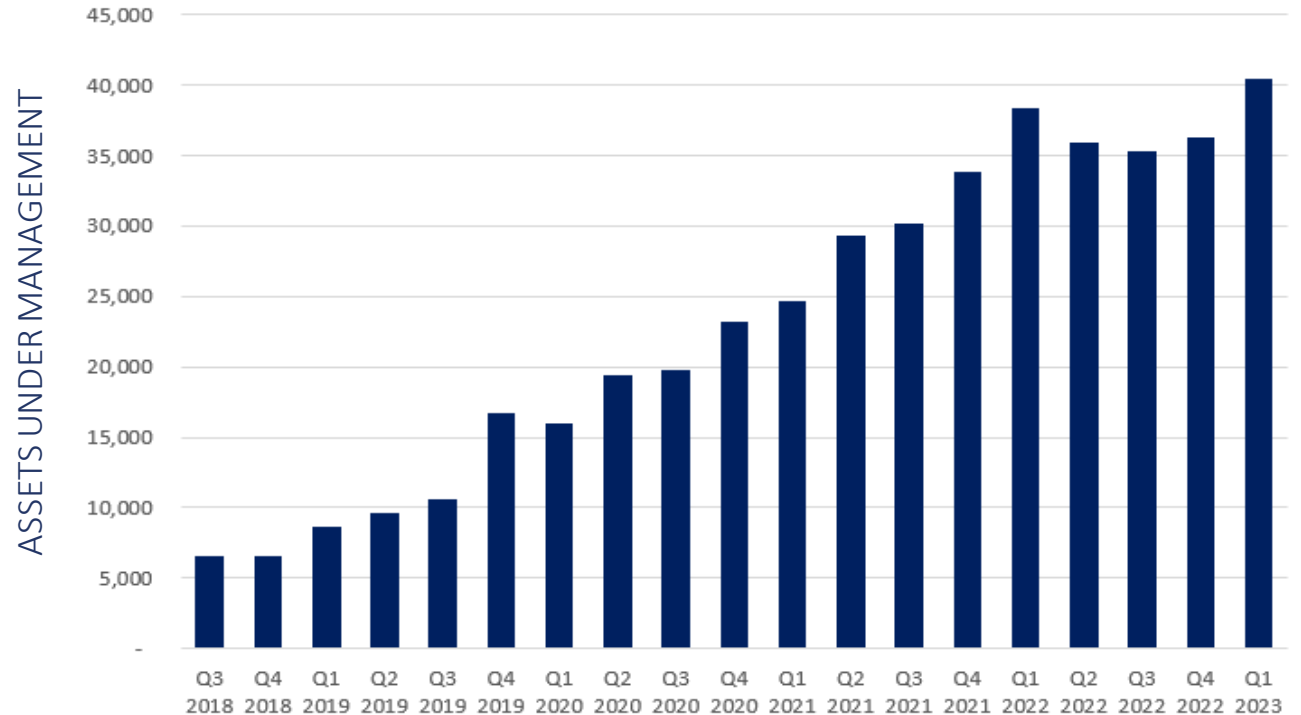


OUR PROGRESS TO DATE



Source: Border to Coast Annual Report and Accounts 22-23
 Border to Coast Pensions Partnership – Warwickshire Pension Fund Annual General Meeting

POOLING THROUGH BORDER TO COAST



PROFESSIONAL PENSIONS
 UK PENSIONS AWARDS 2023

2023 Equity Manager of the Year

2023 Alternative & Private Markets
 Investment Manager of the Year

LAPF
 INVESTMENTS
 AWARDS

BEST APPROACH TO
 RESPONSIBLE INVESTMENT

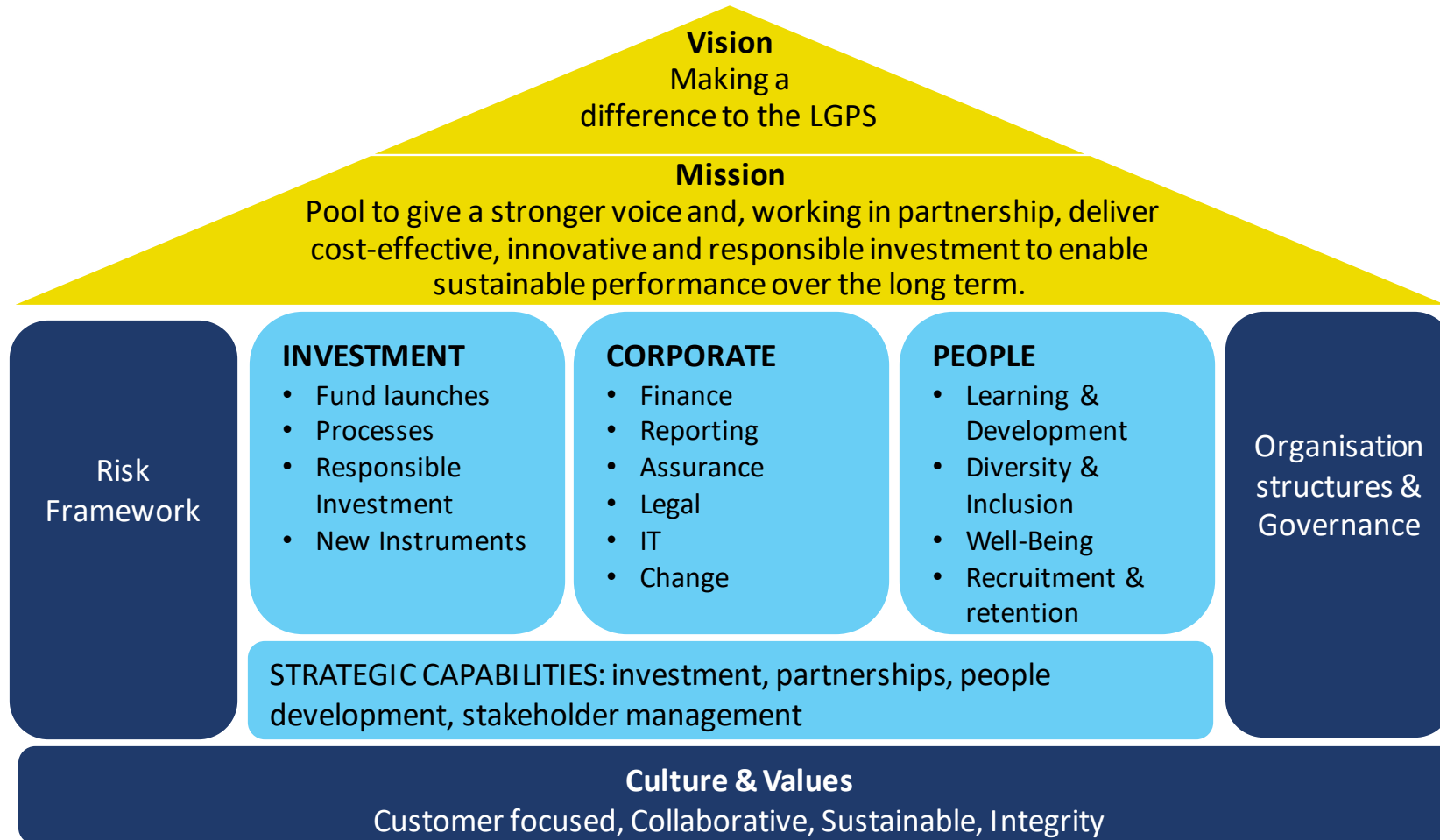
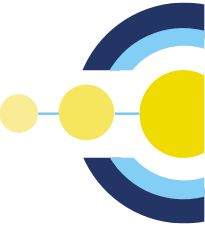
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POOL OF THE YEAR

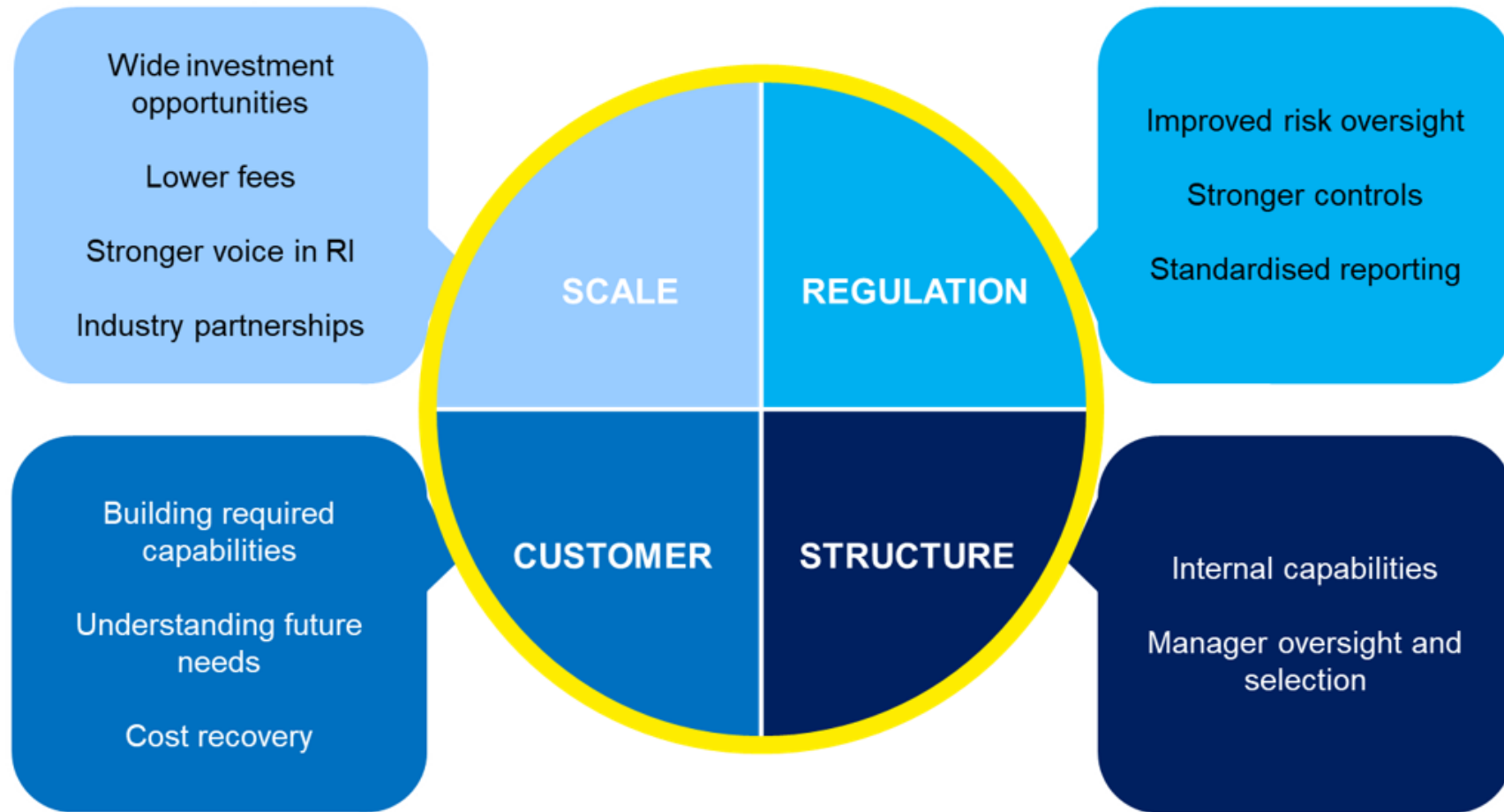
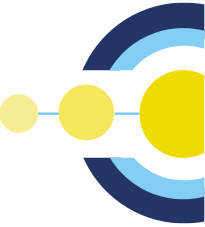
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GOOD GOVERNANCE AWARD

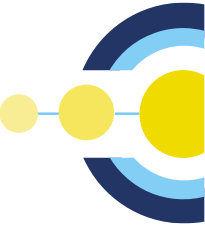
OVERVIEW: OUR STRATEGY IN SUMMARY



OVERVIEW: WORKING TO MAKE A DIFFERENCE



OVERVIEW: OUR APPROACH TO INVESTING



Long Term

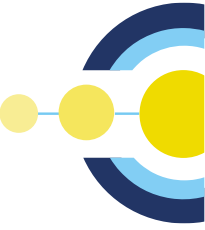
Active
Management

Fundamental
Research

Costs are a
headwind

Engagement

Commitment
to
sustainability



Collective Voice, Global Impact

Integrating
ESG

Active
Ownership

Industry
Engagement

Reporting
and
Governance

A VISION FOR 2030

BUT CHANGE IS INEVITABLE

The LGPS operates in a complex ecosystem which is experiencing significant change.

LGPS

The LGPS is facing increasing regulation, reporting requirements, and complexity.

Age profile of the LGPS workforce requires significant workforce planning.

DB MARKET

DB market moving to insurance buy-out solutions / superfunds. Potential future consequences for pensions policy, regulation, and ecosystem capacity to support open DB schemes.

INVESTMENT CONSULTANTS

Remaining consultants supporting the DB market are moving towards Fiduciary Management as demand for traditional consulting services declines.

INVESTMENT SUPERTRENDS

Increasing complexity and sophistication. Development of both specialised 'Cash-flow', and 'Outcome orientated' strategies.

IMPLICATIONS FOR OPEN DB SCHEMES

- Progressively **less support from third parties**
- Achieving **appropriate scale** can help reduce burden of addressing regulation and pressures to demonstrate value
- Gradually develop **in-house capabilities** that can move closer to direct ownership and management.
- Strategic **understanding of cashflow requirements** and how this will develop in the years ahead.
- **Greater RI scrutiny** and Net Zero transition expectations for Open DB schemes
- **Governance & Op Model flexibility** required to capture opportunities

CHANGE IS IMPACTING PARTNER FUNDS

1. Resourcing in Partner Funds

Given the evolution of the wider ecosystem, how to ensure Partner Funds can continue to source, grow and retain experience and talent?

2. Governance

Managing political turnover, training and business volume within the election cycle

3. Reporting

Increasing scope and complexity of reporting requirements including climate change.

4. Tactical and dynamic decision-making

How to make tactical and dynamic investment decisions to respond to changing market events.

5. Income and cashflow management

As the LGPS matures, how to best manage income generation and associated operational activities (e.g. modelling, cashflows, calls/distributions, treasury).

6. Wider Services

Are there non-investment services where Partner Funds could develop a collective solution (which may be separate from Border to Coast).

7. Political & Regulatory direction

The risk of political or regulatory 'intervention' on how the LGPS invests and operates.

Communication, Engagement & Partnership

UNDERSTANDING INTERNATIONAL BEST PRACTICE

GLOBAL PENSION INDEX 2022			
Grade	Pension system		
A	Iceland	Denmark	Netherlands
B+	Norway	Finland	Australia
B	Canada	Sweden	Ireland
	Belgium	Chile	New Zealand
C+	USA	France	Spain
	Malaysia	UAE	Portugal
C	Poland	Brazil	Austria
	Japan	Taiwan	South Africa
D	Mexico	Peru	Italy
	Indonesia	India	Argentina
	Philippines	Turkey	Thailand

Main principles and shared success criteria of these systems

1. Clear, well-structured governance, with active and professional oversight/ countervailing power
2. Stakeholder involvement/ alignment, with long term focus is a key success factor
3. Trustees set overall policy and framework, with delegation of day-to-day management to Executive/ PMO, whilst retaining oversight
4. To enable oversight, comprehensive reporting is a requirement - usually produced by a pension management firm
5. Whole system thinking is key to driving effective outcomes for members
6. Stakeholders perform the role best suited to their expertise
7. Finding and retaining talent

* The models were chosen based, among other factors, on the Mercer CFA Institute Global Pension Index Report - 2022 Highlights, which is represented in the table.

OUR PRINCIPLES FOR CHANGE

Partner Funds developed a set of principles through which any potential change can be assessed:

1. Sustainable and affordable contribution rates
2. Capability of addressing the seven agreed challenges
3. Sustainability of the overall ecosystem
4. Joint ownership of purpose and mission, including alignment of interests of overall ecosystem
5. Managing Financial & Operational Risks
6. Maintain accountability to stakeholders (scheme members, employers, and taxpayers)
7. Scalability and adaptability to future change



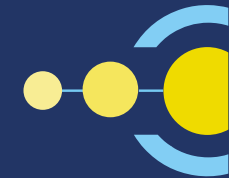
GOVERNMENT CONSULTATION ON LGPS POOLING



The long-awaited Government consultation on pooling launched on 11th July 2023. It proposes:

- All listed assets to be pooled in a reasonable timeframe (suggesting 31 March 2025).
- Benefits of scale, smaller number of pools in the future (suggesting that c.£100bn is optimal).
- Internal investment management capabilities through working with other pools.
- Pools to advise on and implement investment strategy – Funds to provide broad instruction regarding asset class and level of risk.
- Increase the training (and knowledge) of Pension Committee members.
- Consistent reporting to track the progress of pooling and show comparable returns across funds.
- Have a plan to invest up to 5% of assets to support Levelling Up in the UK.
- Total ambition of a 10% allocation to Private Equity.

The consultation suggests that if an individual Fund doesn't adhere to this policy, their position as an Administrating Authority can be removed through existing powers.



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