

LGPS Investment Reform Criteria and Guidance

The Hampshire Pension Fund has committed to be a member of the ACCESS Pool of pension funds in central, eastern and southern England.

The Hampshire Pension Fund is one of the ten largest of the 89 Local Government Pension Schemes ('LGPS') funds in England and Wales, with a value of £5.1 billion, 145,000 contributors, pensioners and deferred members, and 323 employers with active members as at 31 March 2015.

The members of the Hampshire Pension Fund Panel and Board recognise that the pooling of investments is one of the most significant changes that the LGPS has ever faced. This change can deliver the benefits in the Government's guidance document, even for a large, well governed scheme like the Hampshire Fund:

- Hampshire has been a member of the Hymans Robertson Project Pool work that has shown costs savings will be achieved from pooling investments. However the Government should note that the savings are likely to be lower (in percentage terms) for larger funds like Hampshire.
- LGPS funds working together is an exciting opportunity to better share expertise and improve decision making and governance in funds.
- Hampshire has already made what it believes is a significant and appropriate allocation to infrastructure of 5% of the Fund in its strategic asset allocation. To access the necessary skills to identify suitable infrastructure investments Hampshire has appointed an investment manager and is investing directly into infrastructure funds; it has never invested in 'fund of funds' products. The Panel and Board look forward to working with other funds, either through pools, or as part of a larger national structure, such as the current proposal supported by the LGA. Hampshire's priority for any investments, which includes infrastructure is to identify opportunities with the correct return and risk characteristics to make them viable additions to the Pension Fund's investments.

In addition to the benefits above Hampshire's Pension Fund Panel and Board are extremely mindful of the risks and challenges of pooling investments, specifically:

- The costs of both establishing a pool, particularly if an ACS vehicle has to be used, and transitioning any investments.
- That maintaining the accountability for investment performance to the scheme's employers in Hampshire remains in the new governance structure.
- Ensuring that there is no deterioration in investment performance.

Given the significance of the change and the potential risks involved, the Hampshire Pension Fund has taken a measured approach and followed a robust process in identifying likeminded funds and deciding to commit to the ACCESS Pool. The

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particularly important features of ACCESS that were key to Hampshire's decision were:

- That the participating funds in the pool agree to work collaboratively ensuring that all participants have an equitable voice in governance.
- The pool will provide the necessary range of asset types to enable participating funds to execute their locally decided investment strategies with decisions (including investment decisions) being objective and evidence based. In particular ACCESS will not initially undertake any internal management of investments. Hampshire firmly believes the case has not yet been made that investment performance with the appropriate levels of risk control can be undertaken internally within the LGPS.
- The importance of principles to avoid unnecessary complexity and cost, including a commitment to investigate the options for pooled vehicles, in particular options other than an ACS, such as a Collective Asset Pool, which appears to offer a lower cost solution for the formation of a pool.
- The desire to preserve the best aspects of what is currently done locally and reflecting the participating funds' preferences in terms of which decisions are made locally by individual funds.

The progress to date and plan for the establishment of the ACCESS Pool is shown in the Pool's submission to Government, which Hampshire is a signatory to. Hampshire will play a full part in the establishment of the pool. In addition the Hampshire Pension Fund Panel and Board will continue to exercise their statutory fiduciary duty for the Hampshire Fund and if, having taken suitable advice, it believes that it is in the Fund's interest that any investment is made outside of the pool, they will act accordingly.