Proposal for asset pooling in the LGPS

Response from Local Pensions Partnership Ltd

15 July 2016

LPP
Local Pensions Partnership

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Annexes

Please note: the following annexes are provided as separate documents.

Annex No	Title	Question Annex relates to:
1	Transition of Assets into LPP	Criterion A, 5(b)
2	Advisory and Management Agreement (Confidential)	Criterion B, 2(b)
3	LPP Summary of Key Policies	Criterion B, 4(c)
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Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	**Local Pensions Partnership (LPP) Ltd**
Participating authorities	Lancashire County Pension Fund (LCPF) (shareholding held by LCC) London Pensions Fund Authority (LPFA) Royal County of Berkshire Pension Fund (Berkshire)

Criterion A: Asset pools that achieve the benefits of scale

1. The size of the pool once fully operational.

(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).

The respective Fund Annual Reports 14-15 reported the following assets under management (AUM) at 31.3.15:

- LCPF: £5.8bn
- LPFA: £4.6bn
- Berkshire: £1.7bn (subject to contract)
- **Total: £12.1bn**

If current AUM values are used (June 2016), the sum for the three funds is c.£13bn.

The Local Pensions Partnership (LPP), which was formed by LCPF and LPFA and includes a Financial Conduct Authority (FCA) authorised subsidiary, LPP Investments Ltd (LPP I), became fully operational in April 2016 after working in shadow form since 2015.

Berkshire has signed a letter of intent to join LPP and is progressing with detailed planning with a view to transitioning assets by April 2018. However, the Berkshire Fund is still going through its Committee approval process prior to making a binding commitment. Thus, information contained in this response is primarily in relation to LPP or its existing shareholders, LCPF and LPFA, with Berkshire's information added where known or relevant. We anticipate concluding discussions and legal formalities for Berkshire to become a shareholder by the end of January 2017.

LCPF and LPFA pooled the management of their assets in April 2016 – the date at which the investment subsidiary of LPP gained FCA authorisation. The activities of LPP I include both advisory and discretionary investment management and as a consequence 100% of the assets (excluding cash) were transitioned to the management of the pool at this date.

LPP I is now in the process of structuring a series of Investment Pooling Vehicles (IPVs) into which existing assets can be transferred and through which new investments will be made. Fully progressing with the use of IPVs (such as an Authorised Contractual Scheme (ACS)) is inhibited by the current LGPS Investment Regulations which restrict investment of more than 35% of a Fund's assets into collective investment vehicles managed by a single entity. LPP welcomes the draft proposals contained within the LGPS (Management and Investment of Funds) Regulations 2016 and encourages Government to bring these into force at the earliest opportunity. Through LPP's flexible structure we are able to realise many of the benefits of pooling, but will achieve even greater benefits once the new Regulations are in force.

Growing LPP

We reiterate: LPP is already up and running and generating benefits, including investment cost savings; £13bn is just the start of our journey to expand our AUM.

At the meeting on 26 May 2016 between Andrew Cornelius and Theresa Kay and Michael O'Higgins (LPP Chairman) and Susan Martin (LPP Chief Executive), and also at the LGPS Evaluation Panel meeting on 6 July 2016 LPP set out what we will be doing both to:

- increase AUM by April 2018 and beyond.
- build our broader pensions services offering, which is a fundamental element in our full asset & liability management partnership. As at submission date, LPP already provides pensions administration services to 10 LGPS funds, six fire authorities, one police authority and five legacy schemes in respect of former teaching staff. Together these support c.1,000 employers and c.500,000 members.

To recap on what we discussed around asset pooling:

Following Government publishing its pooling criteria in November 2015, LPP issued a standing invitation to any other LGPS funds or groups of funds who were interested in joining LPP as investors in the pool or as investor/shareholders. As Treasury is aware, detailed discussions were held with several funds but these have not been successfully concluded due largely to difference approaches to governance.

However, as we explained, we have also collaborated with other funds through sharing information and in some instances aspects of the legal advice we received around LPP's structure and setting up our FCA Operator. **We are ready to continue this collaboration in the future and remain open to engaging with either individual Funds or other pools to find mutually beneficial partnerships.**

Before coming together, both LCPF and LPFA independently enjoyed successful track records for collaboration within the LGPS, whether through providing administration shared services or in respect of co-investment opportunities. At LPP, this ethos continues and we are confident that LPP will grow its assets under management and pensions services business significantly through continuing this collaborative working approach with other pools and individual funds. For example:

- Through LPP I, we can provide regulatory and operational solutions for other pools that do not wish to, or are unable to build a fully functioning regulated Operator and/or associated investment pooling vehicle(s). We have had preliminary discussions about this possibility.

- Within LPP I, there is potential to open certain asset classes for co-investment by other LGPS and/or other public sector funds. Again, we have had early discussions with a non-LGPS fund about what might be possible.

- Infrastructure. The £500m Infrastructure joint venture, GLIL, which LPFA and Greater Manchester Pension Fund established in January 2015, will be expanded to include respective wider pooling partners during summer 2016 lifting total commitments to in excess of £1bn.

- By the end of 2016 we plan to re-structure the joint venture into an Infrastructure Fund open to every LGPS pool/fund. We believe that this will offer a potential national infrastructure solution for the LGPS. More information on the Infrastructure joint venture, its successes to date and its expansion plans, are included in our responses to 'Criterion D – An improved capacity to invest in Infrastructure'.

2. Assets which are proposed to be held outside the pool and the rationale for doing so.

(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).

LPP is built upon a principle of pooled investment management and implementation. **To this end we would not anticipate holding assets outside LPP I**

Pooling is achieved through:

- Centrally managed and physically pooled assets held within Investment Pooling Vehicles (IPVs) (e.g. equities will be held within an ACS).
- Centrally managed assets physically held on the balance sheet of each individual investing fund. The aim is to gradually transition these assets to IPVs (ACS or otherwise) where and when appropriate. However, all assets will benefit from pooled management and economies of scale, irrespective of the presence or otherwise of an IPV.

We have a transition plan which will see the vast majority of assets moved into IPVs during the first 12 months of operation, subject to the Regulations being in force and allowing this to happen. Similarly, once the IPVs are launched, any new investments would be made via these structures.

After the initial transition period we expect that approximately 15% of the assets will remain outside these IPVs due to specific circumstances that mean physical transfer of ownership is not appropriate for one or more of the following reasons:

- Excessive transition costs with no offsetting cost benefit;
- Statutory or contractual barriers which prevent the transfer of ownership;
- Highly subjective valuation on short duration assets.

In most cases, the longer term expectation is that assets outside IPVs would be held to maturity, at which point the cash proceeds received would be re-invested via an IPV.

Direct Real Estate is a particular challenge when considering transfer of ownership into an IPV. Stamp duty charges are punitive when compared against any expected benefits from holding the assets within an IPV. We have assumed a suitable solution will be made available (such as seeding relief) which will allow pooling of property without a stamp duty charge. **We encourage Government to urgently review tax guidelines and put in place the necessary guidance to permit transfer of properties into IPVs without incurring taxation.**

LPP expects to operate segregated accounts to hold each member's Private Equity holdings. These accounts will be managed by LPP with the same controls and benefits of an IPV, but will provide a more transparent ownership structure, better suited to the specific characteristics of the asset class. New investments will typically be common to each segregated account and the benefits of pooling (such as reduced fees on future investments due to scale, improved access to co-investment for both existing and future investments, and increased and more experienced management resources) shall accrue to the segregated accounts.

Berkshire:

When Berkshire joins LPP, the same principles will apply, with all assets expected to transition into the pool, and some assets expected to be held to maturity with returned cash then invested via IPVs. The one exception being a local property portfolio. Further details are provided in section 2(b).

(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

As explained above, all assets will be held under pooled management.

Berkshire has advised LPP of its wish to retain certain locally-focused investments permanently outside the pool and will seek its own approval from the Secretary of State to do this. Currently, this is in relation to Glassford LLP, which is a joint venture with Housing Solutions, a Maidenhead based Housing Association. Berkshire intends to expand this joint venture over time to develop additional housing schemes in the vicinity of Berkshire. In principle and subject to DCLG permission, any future Asset Management Agreement (AMA) that LPP I concludes with Berkshire can accommodate a percentage of assets to be allocated to local investments for the sole benefit of Berkshire. These could either be managed via LPP I (on an advisory basis) or with local resources at Berkshire.

3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

LPP is live and operational – no future sign off is required. LPP Ltd is a full pensions services organisation, which has an FCA authorised subsidiary, LPP I, and a pensions administration subsidiary, LPP Administration Ltd (LPP A). Thus, in addition to asset pooling, we have pooled risk management, administration, and all associated support. LPP was set up jointly by LCC and LPFA and has been in operation since April 2016. LCPF and LPFA originally came together over two years ago because we wanted to:

- Provide excellence in governance and pension fund management.
- Manage liabilities as well as assets, in order to reduce deficits, ensure the sustainability of our respective funds and improve/stabilise employer contribution rates.
- Increase critical mass to deliver significant economies of scale and improvements across the totality of our respective operations.

Our objectives are better management of our liabilities, improved fund stability and long-term deficit reduction. Both funds believe that only by managing assets and liabilities together will long-term and sustainable deficit reduction be achieved.

As a pensions services organisation, we seek to manage a full range of pension fund functions including risk at all levels within our partner funds. This aims to both improve their long term-fund performance and to ensure they meet all applicable regulatory standards. This concept spans all activities, from regulatory compliance, employer risk management and pension administration to integrated asset and liability management and reporting. The effective interaction of all these elements enables us to more accurately address the liabilities of the pension funds involved to achieve deficit reduction over the longer term. And, ultimately, for our clients' members and employers, we want to deliver an excellent service, representing best-in-class administration and fund management.

By aggregating all activities and being an active steward not just of assets, but also liabilities and risk, LPP aims to generate significant savings and effective deficit management for public sector bodies. This risk-oriented approach seeks to build long term resilience for public sector funds.

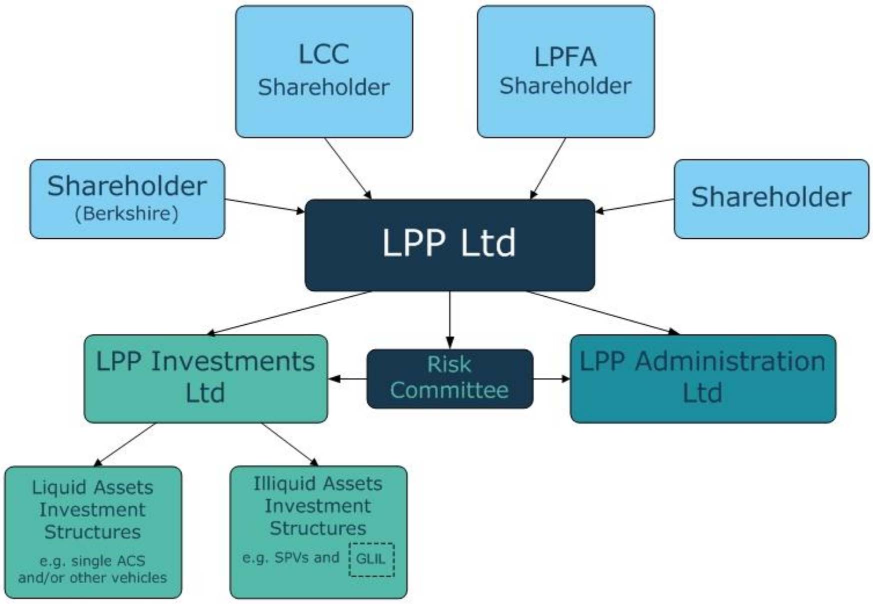
Legal structure:

LPP's legal structure utilises a group corporate structure. The holding company - LPP Ltd – provides oversight and accountability back to shareholders (Funds). The group board comprises shareholder-nominated directors, independent non-executive directors and executive directors.

There are two subsidiary companies - LPP Investments Ltd, (LPP I) the FCA 'Regulated Operator', which manages investments through a variety of structures, including the Authorised Contractual Scheme, and LPP Administration Ltd (LPP A), which provides pension administration services.

The model allows for multi-fund participation (as investor shareholders or investors only in LPP I) supported by multi-site investment and administration service teams.

LPP organisation chart:



Benefits that LPP delivers:

LPP will deliver a range of benefits to all stakeholders (i.e. shareholders, investors, fund employers and members).

We anticipate significant longer term potential for cost-savings for all funds, whether in relation to investment management expenses or pension administration expenses. These cost savings will, of course, flow back to the participating funds and add to their strength, stability and continuing ability to maintain more stable contribution rates and pay current and future member pensions. Based on just LCC's and LPFA's participation so far, we have identified potential net savings of c.£33m in investment management fees over five years, c.£1m savings in pension administration costs in year two of operations and we anticipate improved investment outcomes of c.£20m-£30m from current levels over the next five years. We anticipate achieving greater savings with the addition of Berkshire and the opportunity to exploit further economies of scale across investment and administration operations.

Note: We would emphasise that LPP has a not-for-profit, cost-based model, whereby charges levied on participating funds are targeted to cover the costs incurred. Surpluses will be returned to the investors who contributed the excess on a pro-rata basis.

In addition, other benefits to the individual stakeholder groups include:

Shareholders

- Ownership rights.
- Participation in governance.
- Costs have already been incurred for both regulatory capital requirements and the

establishment of LPP. Any future incoming funds (including Berkshire) will not meet any of the sunk costs, nor will they need to contribute to the regulatory capital requirement until such time as assets exceed £30bn AUM.

Investors in LPP I

- FCA-regulated entity with appropriate high levels of governance.
- LGPS funds can join the pool without a full procurement exercise being required.
- Not-for-profit ethos ('By LGPS for LGPS'); surpluses are refunded to pool participants on a pro-rata basis.
- Experienced investment team with oversight from independent board.
- Opportunity to invest in a broader range of alternative asset classes.
- Investor participation through Investor Forum.

Fund/Employers

- A transparent and inclusive governance structure.
- Through LPP I, low cost access to an FCA regulated investment manager - consistent with Government's preferred pooling route.
- LPP is seeking to assist funds to achieve longer-term deficit reduction through:
    - Improved identification and management of fund liabilities enabling better targeted investment
    - Increased scale to enable investment in a broader range of asset classes (e.g. infrastructure)
    - High quality internal investment capabilities enabling internal management and removing the profit margin paid to external managers.
    - Greater purchasing power where external management/services continue to be most suitable.
- Professional and tailored risk management services to support deficit reduction and contribution rate stability.
- Market-leading and cost-effective Pensions Administration Services.
- Wide range of Risk Management Services.

Fund Members

- LPP provides best-in-class pension administration services and seeks to deliver a timely, responsive and personal service to members. It has the scale to leverage the best use of technology and to exert positive influence over partners.
- Transparent and engaged oversight and management of pensions.
- FCA regulation of LPP I provides assurance around standards of governance.
- LPP's risk management approach seeks to ensure that funds are managed on the basis of delivering long-term sustainability and deficit reduction.

Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.

<u>LPP I Overview</u>

Asset pooling is carried out through LPP I, which is an FCA 'Regulated Operator' managing the assets on a delegated and discretionary basis. The Operator is also the manager of a series of Investment Pooling Vehicles (IPVs), including an ACS. LPP I's Board includes executive and non-executive directors, who report to the group board. Investment and relevant support staff are employed by LPP I.

The sovereignty of all pension fund partners is maintained. Individual funds retain local accountability and keep control of strategic decisions such as employer contribution rates, strategic asset allocation and setting risk appetite. Implementation of these sovereign decisions and the selection of individual investments is fully delegated to LPP I, which has been granted a wide range of regulatory permissions by the FCA, including permissions to manage an authorised Alternative Investment Fund (AIF).

LPP I is staffed by a team of investment professionals supported by a specialist team of risk, compliance and operations experts. The senior employees of LPP I have each been granted Approved Person status allowing the statutory controlled functions to be carried out in-house.

Central to LPP I's philosophy is the belief that the continued professionalisation of investment management and appropriate delegation of decision making should lead to improved investment outcomes, with the added benefit that these are likely to be significantly in excess of cost savings.

The investment professionals have a proven track record managing assets including both internal and external management and have been recognised by their peers through various industry awards. The most recent being Chris Rule (Managing Director and Co-Chief Investment Officer of LPP I) winning 'CIO of the Year 2016' and Deputy CIO, Trevor Castledine, winning the 'Best Use of Private Debt' category in Institutional Investor magazine's annual awards. LAPF Magazine also awarded the Infrastructure joint venture with Greater Manchester Pension Fund the 'Best Infrastructure Project' award.

By way of empirical demonstration of the potential benefits of professionalisation of investment management, LCPF's outperformance of the LGPS average added £250m of return last year to 31 March 2016. A further example being LPP's internally-managed equity strategy, which has delivered £100m of excess returns versus its benchmark in the period since its inception (August 2014) to June 2016.

Outline of tax treatment and legal position, including legal and beneficial ownership of assets.

LPP has been established with a view to maintaining the existing favourable tax position of LGPS Funds and minimising any frictional costs. From a high level perspective, the transition of assets to IPVs shifts the legal ownership into the name of the IPV or its custodian. Beneficial ownership on the other hand is re-distributed amongst pool members as the LGPS funds will own units in the IPV which will aggregate all of the relevant assets.

Withholding tax on dividends can be significant and in order to maintain the favourable treatment LGPS Funds currently enjoy, LPP will make use of tax transparent fund structures. LPP will operate an Authorised Contractual Scheme which is widely recognised across global markets and maintains the favourable position with regard to withholding tax.

At present the ACS is less well suited to providing a solution in other asset classes, especially where these are illiquid. LPP continues to evaluate alternative fund structures. One area of material concern relates to Real Estate and the stamp duty charges levied during change of ownership (similar issues may arise in relation to direct infrastructure holdings, which also involve ownership of real estate). In order to transition direct UK property assets into an IPV, a solution which does not incur stamp duty is required. A seeding relief mechanism is one possible solution – this would allow Funds to transfer their properties into the IPV without the tax drag. In the absence of this mechanism, costs of direct property transition outweigh any benefits.

The overarching legal contract with regard to investment activities is the Advisory and Management Agreement - between LPP I and each fund. This governs the implementation of the investment strategy and provides LPP I with the delegated authority to implement the strategy in line with the strategic requirements of each fund.

Participating funds set the objectives and strategic asset allocation, whilst LPP I makes all sub asset class and manager/stock selection decisions.

As already outlined in 2(a), LPP I manages the pooled investments in one of two ways:

- Centrally managed and physically pooled assets held within IPVs (e.g. listed equities within an ACS).
- Centrally managed but physically held on the balance sheet of the investing fund ('Balance Sheet assets'). The aim is to gradually transition these assets to IPVs (ACS or otherwise) where and when appropriate. However, all assets will benefit from pooled management and economies of scale, irrespective of the presence or otherwise of an IPV.

Balance Sheet assets remain under the legal and beneficial ownership of the individual administering authority although they benefit from pooled management.

Ownership rights will be slightly different in the case of centrally managed and physically pooled assets. In an ACS, for example, the administering authorities will be the legal owners of units within the ACS; while the legal title of the assets will rest with the Depositary, Bank of New York Mellon.

The composition of the supervisory body.

LPP Ltd (composition described above) oversees the activity of the partnership and provides the route back to the shareholders.

Control is exercised by each shareholder appointing a shareholder-nominated Non-Executive Director with a range of shareholder reserved matters in place.

Investment activity is overseen by the Board of LPP I, which acts as the supervisory body.
The LPP I Board is comprised of an independent Chair (Sally Bridgeland), and two other independent Non-Executive Directors (Robert Vandersluis and Michael O'Higgins) and three Executive Directors (the two Co Chief Investment Officers and the Chief Risk Officer).

Please confirm that all participating authorities in the pool have signed up to the above. If not, please

provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

LCC and LPFA are formally confirmed as owner shareholders in LPP. Berkshire has signed a letter of intent to join LPP and is progressing with detailed planning with a view to transitioning assets at or before April 2018. However, the Fund is still going through its Committee approval process prior to making a binding commitment. We anticipate concluding discussions and legal formalities for Berkshire to become a shareholder of LPP by the end of January 2017.

Attached as ANNEX number

NOT APPLICABLE

4. How the pool will operate, the work to be carried out internally and services to be hired from outside.

Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.

(a) To operate in-house (for example if the pool will have internal investment management from inception):

In creating LPP I's investment team, we have combined the significant internal expertise which was already in place at LCPF and LPFA, with staff from both teams transferring into the partnership. Some additional recruitment is also taking place to augment internal resources; most of this is underway as at date of submission and will be completed within the next few months. On the operational side, LPP is building the skills and resources in depth to undertake the following functions in house:

- Investment Management. We will use external asset managers where appropriate, but will use internal management where we can, with the trend being to increasingly use internal management
- Investment Operations and Portfolio Performance Reporting
- Day-to-day/routine Legal Services
- Risk and Compliance functions
- Cash Management and Treasury Operations
- Transition Management - as much as possible we intend to transition existing portfolios to the relevant IPVs using our Investment Operations team. However, we will use external transition managers where one-off trading volumes make this appropriate, or, we require a particular specialism that is not available or cost-effective to retain in-house.

By way of example, we already manage a £933m buy and hold, long-only equity strategy in-house, with an investment philosophy that aims to invest in global, large capitalised companies (i.e. companies with market capitalisation of over $10bn) across geographies and sectors/industries. As at 30th June, 2016* this strategy had returned:

- +15.89% YTD (vs. MSCI World Net Total Return Index (TRI) 11.78%)

- +27.96% 12mth (vs. MSCI World Net TRI +15.22%)
- Since Inception (Aug 2014) return +43.36% (vs. MSCI World Net TRI 22.4%)

  **these figures are unaudited.*

(b) To procure externally (for example audit services):

The following services are delivered by external providers:

- External asset management where appropriate.
- Custodian and Depositary services.
- External audit.
- Internal auditors will be procured during 2016.
- Specialist legal services – for example, design and documentation of IPVs' structures.
- Specialist investment advice. We will continue to use our panel of specialist investment advisers as appropriate.
- Certain specialist risk, trading and data provision services (e.g. Bloomberg terminals for access to market data).
- Proxy Voting Services.
- Benchmarking - LPP will participate in LGPS and other appropriate investment benchmarking surveys (for example, CEM).

Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the pool.

The services specified above are either up and running in house, or we have appointed the external providers or, for example, in the case of external transition managers, will appoint these if and when required. Benchmarking services are currently under review prior to a final determination of the most appropriate service provider.

5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.
(a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats). **Confirmed YES** LPP is already up and running and our FCA Operator has been authorised. If NO please state the expected date the structure will be in place and attach an ANNEX detailing the reasons for not being able to have the structure in place by 01.04.2018. Reasons attached as ANNEX number NOT APPLICABLE
(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable. All assets are already being managed by LPP I in the pool. We attach a plan describing how these will be transitioned to IPVs in due course. Please see Annex 1. Attached as **ANNEX** number 1: **Transition of Assets to LPP**
(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.) Attached as **ANNEX** number: NOT APPLICABLE
(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018. Total value of assets estimated to be held in pool as at: • 31.3.2021: £13bn • 31.3.2024: £13bn • 31.3.2027: £13bn • 31.3.2030: £13bn • 31.3.2033: £13bn These figures are 'as at 31.3.2015' and include no assumptions of investment growth.

Criterion B: Strong governance and decision making

1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.
a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights. As described earlier, LPP Ltd is the group holding company and has an oversight role. As far as each shareholder fund is concerned: • They have a Non-Executive Director seat on the LPP Ltd Board. • They participate under the principle of **one share, one vote, irrespective of fund size**. • They sign up to a Sovereignty Agreement and shared principles around the partnership. These cover such provisions as confirming that strategic decisions are taken locally, and guarantees the sovereignty of the administering authority. • There are a number of "matters reserved" to shareholders, which in effect demonstrate control over the partnership. These include key decisions over the future of the partnership, remuneration policy and the strategic business plan. • They develop a Policy Portfolio, which is a reflection of the strategic asset allocation for the fund of each administering authority. This includes specifying the tolerances around the benchmarks which LPP I can operate under. Any specific instructions will be included in the Policy Portfolio for each shareholder. • All investors in the pool (including any future funds that join as 'investors only') will also participate in the Investors Forum, which meets twice a year. Through this Forum, investors can participate in discussions, challenge the investment professionals and contribute input to decision making across a broad range of areas (e.g. future ACS sub funds). **Voting rights** LPP I will centrally exercise the voting rights attached to assets owned collectively by Funds which contribute to the listed equities pool. Voting will be executed by an external provider of proxy voting services in accordance with a voting policy which reflects the long term interests of beneficiaries by encouraging well run, sustainable companies reflecting high standards of corporate governance. The detail of these policies will be discussed with the Investor Forum to ensure that the views of the various Funds contributing assets to the Pool are taken into account in framing the policy.
b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board). Each fund will continue to maintain their own strategic governance arrangements, including their Pensions Committee/ Panel and Pensions Board. From a client relationship management perspective, these will be important touch points between LPP and the respective administering authority, the fund's employers and members. LPP will provide representatives to attend meetings as required and keep fund representatives up to date with what LPP is doing on its behalf. Each shareholder will also be provided with regular compliance and monitoring reports on LPP's performance.

2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.
(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body. There are a number of key legal documents which are in place between LPP and the shareholders. These include: **Shareholder Agreement:** Tri-partite agreement between LPP, LPFA and LCC which would be extended to Berkshire and any future shareholders. It outlines obligations, controls and "matters reserved" for shareholder approval. **Articles of Association:** LPP Ltd's Articles of Association governing the operation of the holding company. This emphasises the fact that the shareholder non-executive directors need to provide their approval to all LPP Ltd's decisions. **Transfer Agreement:** An individually tailored agreement developed between LPP and the shareholder. This reflects the transfer of any staff, assets (i.e. non-pension fund assets, such as computers) and contracts. **Services Agreement:** This agreement covers the services to be provided by LPP Ltd back to the individual LGPS fund. The service level agreements are individually tailored and cover pension administration, fund managements and reporting and highlight the ongoing responsibilities of each LGPS fund under the LGPS Regulations. **Advisory and Management Agreement:** This is the key document delegating the relevant LGPS fund's investment management to the investment subsidiary, LPP I. It outlines the scope of responsibility for LPP I and includes the Policy Portfolio (Strategic Asset Allocation) for each fund. This is supplemented by Asset Class Mandate restrictions, which set out investment and risk limits for each asset class. The agreement also sets out the arrangements to jointly manage legacy assets in their current form, until such time as it becomes appropriate to pool them.
(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX. Attached as **ANNEX** number 2: ANNEX 2 NOT AVAILABLE (COMMERCIALLY SENSITIVE)

(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

The Advisory and Management Agreement (AMA) is a legally-binding document which contains a general obligation to report and account for delivery against the specified objectives of each Fund. In addition, the specific reporting requirements are included within the contractual agreements between parties. The first line of defence is LPP I's internal governance structures, which includes professional investment personnel, independent risk oversight and a Board which includes Non-Executive Directors with a professional investment and pension background.

Performance and compliance reports are issued to the shareholders via the LPP group Board, allowing the LPP Board to provide a second line of defence against poor performance and or deviation from objectives.

The third line of defence is provided by the matters reserved to the shareholders, which include budgetary and strategic business plan sign off.

Obligations of LPP
The AMA is the principal governance document in relation to investment management activities and includes performance and risk monitoring and reporting requirements. These requirements are below as an extract from the AMA:

7.1 Reports relating to the Portfolio will be prepared by LPP I (or LPP I will procure that such reports are prepared) and sent to the Client on a monthly basis. The Reports will include:

- 7.1.1 a performance update;
- 7.1.2 a cash flow statement;
- 7.1.3 a solvency statement;
- 7.1.4 details of any tactical deviations from the Strategic Asset Allocation;
- 7.1.5 a review of compliance against all restrictions applied to the Portfolio, including but not limited to regulatory limits, Asset Class Mandates and investment management agreement limits;
- 7.1.6 a summary of any changes made to Asset Class Mandates or any other investment restrictions to be applied by LPPI; and
- 7.1.7 a summary of changes to the delegation arrangements.

7.2 A general commentary on market conditions will be provided by LPPI to the Client on a regular basis.

3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.
(a) Please list the decisions that will be made by the authorities and the rationale underpinning this. Participating authorities (advised by LPP I and their own independent advisors) determine their specific asset allocation between the high level asset classes. They are able to specify a target level of allocation, as well as an acceptable range within which the allocation can vary. This retains sovereignty over the most important investment decisions and enables each participating authority to shape a portfolio that reflects their own funding position and risk appetite, whilst maximising the likely pooling benefits that can be achieved.
(b) Please list the decisions to be made at the pool level and the rationale underpinning this. Individual and day-to-day investment decisions (be that the decision to allocate to a third party fund manager, or the decision to make a direct investment) and fine-tuning of asset allocation within agreed ranges are carried out within LPP I. This enables investment professionals to assess and size investments being made in the context of the overall pool size for each asset class, rather than having a cumbersome process of authority level approval of every investment decision, (where there may be a limited degree of investment knowledge and skill). Delegating these decisions to LPP I is considered absolutely vital if the potential cost saving benefits of pooling were to be maximised, whilst ensuring that the more important factor – which is investment return net of costs – does not suffer. Negotiation of terms for investments, including pricing, risk aspects and legal documentation is managed by LPP I.
(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this. The LPP I board carries out the normal functions of an FCA authorised investment manager, including oversight, approving high level policies and procedures, as well as monitoring risk and performance against key targets and metrics. LPP Ltd, the group holding company, manages the interaction with each shareholder.

4. The shared objectives for the pool and any policies that are to be agreed between participants.

(a) Please set out below the shared objectives for the pool.

In creating LPP, LCPF and LPFA wished to create an organisation that has the capacity to:

- Contribute to faster reductions in fund deficits, meaning funds have the resources to pay pensions when they fall due;
- Match the highest standards in scheme governance
- Provide funds with a range of tools to assist in managing their liabilities;
- Provide economies of scale across the whole range of activities involved in running a pension fund allowing both the achievement of savings and the development of in-house skills.
- The above is designed to assist in the more effective delivery of the respective statutory functions of each participating LGPS fund.

Given this purpose LPP has set itself the following objectives:

- To deliver sustained improvements in investment returns for partner funds.
- To, within two years, have created a suite of liability management products available to partner funds and the wider LGPS.
- To deliver savings in the cost of running partner funds.
- To administer scheme benefits to members more efficiently while encouraging greater access and engagement from all scheme members.
- All to be measured against the business base case with the expectation that further improvements can and will be delivered.

(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

LPP has a range of agreed policies for operating the business. A summary schedule of key policies is attached for reference. The detailed policies are available if required.

In addition a Sovereignty Agreement was put in place by the two founding authorities. This guarantees the sovereignty of each participating Fund and establishes the key areas which remain under the control of the Fund, such as Strategic Asset Allocation.

(c) If available please attach as an ANNEX any draft or agreed policies already in place.

Attached as **ANNEX** number 3: **LPP Summary Schedule of Key Policies**

5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.

(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. Please include details of where new costs are offset by reduced existing costs.

Implementation costs:

Project Costs

	£m
Costs Incurred to Create the Operator and Investment Structure	
Legal and Procurement Advice	0.559
Project Management	0.185
Financial and Taxation Advice	0.120
Regulatory Fees and Advice	0.029
Other items including travel between London and Preston, training, printing etc.	0.055
	0.948
Operator Costs Incurred before Operational Date	
Appointment and Remuneration of Board prior to operational date	0.094
Recruitment and remuneration of staff prior to operational date in Investment Operations	0.103
Insurance	0.129
ICT Set Up Costs	0.251
Other items including, travel between London and Preston printing creation of a website etc.	0.053
	0.630
Total Project Costs	**1.578**

Of these costs £0.890m has been met by the two founding pension funds, while £0.688m falls to be met within the LPP Group's first year trading operations.

Transition Costs:

For equities, the estimated fixed costs of the transition for the two initial investors are £2.9m, covering commissions, tax etc. In addition, the global equity transition manager, Macquarie, has estimated a market impact of £9.5m, with a confidence bracket of +/- £10.6m for a 1 SD (standard deviation) event.

Costs for the other seven transitions, which will be related to legal and valuation fees etc., have been estimated at £0.5m per asset type, giving a total cost of £3.5m.

Ongoing costs:

The overall resources required to run the Operator as set out in the 2016/17 operational budget break down as follows:

	£m
Direct Costs (Staff ICT etc)	4.346
Costs of Financing Regulatory Capital etc	0.616
Accommodation	0.147
Recruitment and Training (includes a one off element in the first year of operation)	0.178
Other Indirect Costs and Support Services	2.968
Total	**8.255**

Operational budgets and the detailed business plan are subject to shareholder approval.

Assumptions:

The project costs for the initial creation of the Partnership have already been incurred. An allowance of £0.1m has been made for further legal costs in relation to the accession of Berkshire to the Partnership.

Transition costs in relation to the various equity holdings have been estimated at £2.9m. This is based on an estimate provided by Macquarie, the appointed transition manager. Estimates for other holdings which are not listed are for legal and valuation fees.

Regulatory and other capital is charged at a rate of 4.25% on a maturity basis for £14.5m. Shareholders and customers will be asked to agree policies in relation to the use of one off surpluses in the business being set aside to replace this loan finance at maturity (10 years). This provides the opportunity to reduce the cost base further.

Charges to investors will be based on budgeted costs, and will be designed to recover costs. Given that in general terms the value of assets under management will rise faster than budgeted costs, this means that the rate of charge will reduce over time providing further savings to investors.

The ongoing costs identified are split between the direct costs of the Operator, including the cost of regulatory capital and those of the depositary/custodian. As the Operator is in place and the contract with the custodian has been procured, these are genuine budgets rather than broad estimates.

A significant proportion of the Operator's cost base was incurred by LCPF and LPFA before the creation of the Partnership. The creation of the Operator enables more transparency of costs and establishes the direction of travel in terms of increasing the scale of in house management and direct investment undertaken by the Operator. As a result, with only limited increases in resources and cost beyond the current level, existing costs will be retained but will replace or reduce external managers' fees.

There are a number of areas of one off cost included in the budget for the first year of operation as indicated above. These will drop out in future years providing the opportunity to reduce charges further.

(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.

The majority of the staff resource required to deliver the creation of the Operator and the rest of the Partnership was provided by reordering the priorities of existing post-holders. However, some additional project management resource was bought in. Specific legal skills, and knowledge in relation to the FCA registration process and procurement support were bought in at various points (for example to assist with the procurement of the depositary). Aspects of the advice we received have been shared with other LGPS funds/pools.

Given the existence of a strong in house investment team, it was possible to undertake the development of the ACS in investment terms in house. Throughout, significant amounts of legal advice were required both for the new partnership entities and for the individual funds.

Specific tax advice has been bought in both for the Operator (as a business) and in relation to the investment assets.

Ongoing budgetary provision has been made for 34.5 FTE staff to be directly employed by the Operator in the following areas:

	FTEs
Investment Management and Oversight	23.0
Compliance	3.0
Investment Operations	6.0
Market Risk	1.0
Administrative Support	1.5
Total	**34.5**

The team has skills and capabilities in the following areas:

- Management and execution of in house active investment strategies in listed equities and fixed income;
- Identification negotiation and underwriting of credit transactions;
- Execution of direct infrastructure investment and management of the investment on an ongoing basis;
- Fund selection and oversight in a range of asset classes including private equity, property, infrastructure and credit.

Corporate support services are provided within the overall LPP group. These include accounting and finance, Human Resources, ICT and Company Secretariat, which is also responsible for ensuring proper recording of the investment decision making processes within the Operator.

Assumptions:
These roles are either filled by current staff or are in the process of being filled. Roles are or will be based in both London and Preston. Budget salary assumptions are in line with the salary scales of the predecessor organisations with some provision for pay harmonisation (allowing for geographic differentials).

Comments:
The Operator provides a range of services to clients other than the two founding funds under arrangements inherited from the predecessor organisations. The principal such arrangement covers the provision of a range of services to Lancashire County Council in relation to its treasury management function, including the provision of strategic advice and the management of specific investment portfolios.

6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.

(a) **Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.**

Confirmed YES

If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.

Attached as ANNEX number NOT APPLICABLE

7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.

(a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

Confirmed YES

If no please attach an ANNEX setting out how the pool will report publically on its performance.

Attached as ANNEX number NOT APPLICABLE

8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.
(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool. The pool is performing according to plan if the schemes are on target to reach their long-term objectives. As such, participating authorities will focus on monitoring their funding ratio and stability of contribution rates. Satisfactory investment performance will be monitored relative to the return targets and investment objectives set out in the Advisory and Management Agreements. Authorities will use a number of qualitative measures to assess governance, with the important roles played by the Pension Fund Committee (LCPF and Berkshire) or Board (LPFA) and Local Pensions Boards continuing.

Criterion C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.

(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.

LCPF: £7.2m
LPFA: £25.7m

Berkshire: £2m

(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.

LCPF: £13.9m

LPFA: £24.3m

Berkshire: £18.1m

(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.

LCPF

There are no specific assumptions involved in the Lancashire County Pension Fund figures, although the final quarter of the year reflects estimated accruals based on contracted fee structures and reported asset values. While there will be some differences between the accrual and actual these have not in practice proved material.

LPFA

Differences in LPFA's costs are as a result of timing differences with regard to accounting for accruals.

Berkshire

Differences in Berkshire's costs are explained as:

- The total amount in 1(a) as reported in the Annual Report and Accounts include only the investment costs and fees that have been directly invoiced to the Royal County of Berkshire Pension Fund but not those that have been deducted from Net Asset Values.
- The total amount in 1(b) has been aggregated using the total investment costs and fees requested from each of the external managers but have not been verified and in some instances estimated fees have been used. A spreadsheet with all the details received from each of the managers is available upon request.

2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.

(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.

LCPF: £29.2m

LPFA: £31.1

Berkshire: £4.1m

(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.

LCPF: £29.2m

LPFA: £30m

Berkshire: £20.3m

(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.

LPFA

Differences in LPFA's costs are as a result of timing differences with regard to accounting for accruals.

Berkshire

Differences in Berkshire's costs are explained as:

- The total amount in 2(a) as reported in the Annual Report and Accounts include only the investment costs and fees that have been directly invoiced to the Royal County of Berkshire Pension Fund but not those that have been deducted from Net Asset Values.
- The total amount in 2(b) has been aggregated using the total investment costs and fees requested from each of the external managers but have not been verified and in some instances estimated fees have been used. A spreadsheet with all the details received from each of the managers is available upon request.

3. A detailed estimate of savings over the next 15 years.

(a) **Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.**

The total value of savings (aggregated in three-year blocks) to be achieved through the activities of the pool are estimated as:

	Gross £m	**Net £m**
31.3.2021:	44.4	19.6
31.3.2024:	44.4	19.6
31.3.2027:	44.4	19.6
31.3.2030:	44.4	19.6
31.3.2033:	44.4	19.6

Note that these figures are constant as:

a. Constant asset values have been used, and
b. The one off costs of transition etc, which are set out elsewhere in this submission, have been incurred prior to 01.04.2018. The figures for the period up to 31.03.18 are gross savings of £44.4m and net savings of £14.6m before market impact of transition.

The net figures are after having met the costs of the Operator and depositary, and measured against a baseline that includes the costs of the predecessor in-house operations in order to allow like-for-like comparison. Because the transition of assets to the relevant pooled vehicles will, in large measure, have taken place before 31.3.2018, there is little transition drag reflected in these savings.

Note: in calculating the above figures, we have included the estimated savings that will be achieved for Berkshire during the relevant 3-year periods.

(b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

The savings from the pooling of listed equity investments are based on the fees agreed with the new combination of fund managers and the proposed allocation of assets between managers. **In itself (and on a transparent basis), this represents a reduction from a blended fee for the portfolio of 37bps to 25bps.**

These savings are calculated based on constant asset values and:

- No assumptions have been made about the opportunity to achieve further savings as a result of mandates reaching a higher size threshold within a manager's fee structure.
- Performance fees (of which there is only one amongst the four managers) have been ignored, as the assumption is that the additional performance achieved in order to generate such a fee will not erode net-of-fee performance materially.

For all other assets, discussions have been held with managers indicating that a minimum starting position for them in negotiating around the larger mandates that LPP I will award is a 10% lower fee. This figure has been used to estimate savings.

Note: The strategic intent is to move to a position where a greater proportion of such assets are either direct investments or co-investments, which generate lower fees. This strategy will, over time, generate significantly greater reductions than the 10% assumed, on those parts of the portfolio affected.

By way of example to demonstrate how reductions can be achieved: LCPF has already committed over £300m to direct lending opportunities (to UK Affordable Housing and Renewable Energy infrastructure) on which there are no external management fees. A typical external management fee for such direct lending investments would be around 1%; these investments alone are saving at least £3m per annum in management costs. Further savings are assumed as capacity to undertake further direct lending is increased. In addition, as referenced earlier in this response (Criterion A, Q4(a)), the £933m buy and hold equity strategy is managed internally at significantly lower cost.

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.

Attached as ANNEX number NOT APPLICABLE

4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.

(a) **Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).**

Set up costs have been provided above in our response to Q5 in Criterion B. These costs have already been incurred and have been met jointly by the two founding shareholders within the Partnership. The costs of transition for equities are based on the costs provided by the Transition Manager appointed and these are estimated to amount to around £2.9m.

(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).

Other than as stated above, none.

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.

Attached as ANNEX number : NOT APPLICABLE

(d) Please explain how the implementation costs will be met by the participating authorities.

The set up costs for the Partnership have been met equally by the two founding funds. Subsequent joiners, such as Berkshire will meet their own legal fees associated with the accession process. Additional costs of setting up the Operator, for example, recruitment and training and the procurement of additional ICT systems, will be met from the Operator's budget in the first year of operation.

5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.

(a) **Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.**

These will be included in the regular performance reporting to investors and in aggregate both to the Board and to the Investor Forum and shareholders.

At the end of each transition, particularly transitions for listed assets such as equities, a report setting out the actual costs versus the original forecast provided by the Transition Manager will be provided to those funds participating in the transition.

(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.

These will be disclosed in regular reports to all investors and collectively to the Investor Forum. The intention will be to disclose both the absolute fee and fee in bps for each investment structure (e.g. the Global equity fund) as this is what is invested in, broken down between fees to managers, oversight costs, and fees for asset servicing such as the depositary. Any performance fees will be separately disclosed.

For unlisted assets there will also need to be arrangements for disclosing entirely transparently the fees involved in bidding for assets. Where such bids are successful then they will become, in effect an up-front fee related to the investment. Where the bid is unsuccessful they will become a cost against all investments within the relevant vehicle. Each investment vehicle will have an appropriate annual limit for abortive fees included in the relevant documentation. These costs will be reported to investor funds within the relevant regular reports.

Investment performance net of fees is the key measure of success for any investment and this will be the headline item reported. While this will be reported against the relevant benchmark (e.g. equity returns versus an appropriate equity index) there is also a need for funds to know whether they are achieving the investment returns assumed in the triennial valuation and are therefore making some progress in addressing deficits. Subject to funds making relevant data available this can be reported as well, as is the case for one current investor fund.

(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

Savings will be reported to investor funds annually, as part of the annual review, which it is expected would be debated at an investor fund's governing body, as well as being a matter for discussion at the Investor Forum. These will be reported as cost reductions against the relevant base line and will be included in appropriate annual reports and similar publications ensuring transparency to scheme members as well as to those responsible for the running of funds.

While savings are important, the ultimate measure of the success or otherwise of a pool, or an investment strategy is net of fees performance and its contribution to the erosion of fund deficits, and therefore the reporting of savings will be a second order issue compared to this.

In calculating reported savings, appropriate adjustments will be made for growth (or reduction due to market conditions) in asset values. In the absence of any centrally agreed means of doing this, the following method will be used. Fee rates in the base year will be applied to the new asset value and difference between this and the actual fee will represent the saving.

Criterion D: An improved capacity to invest in infrastructure

1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"

(a) Please state the pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.

LPP:

- **Total: 5.7% (invested), 8.3% (committed)**
- Direct: 2.4% (invested), 2.4% (committed)
- Indirect: 3.3% (invested), 5.9% (committed)

Berkshire:

- **Total: 4.5% (invested), 4.7% (committed)**
- Direct: 0% (invested), 0% (committed)
- Indirect: 4.5% (invested), 4.7% (committed)

(b) Please state the pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.

LPP:

The combined target allocation for LCPF and LPFA was 10%. There was no specific separation between direct and indirect.

Note that the each of the Funds has been increasing their allocation since this date with a focus on direct investments. As of March 2016 total commitments for LPP were £1.4bn of which £920m were invested. £770m of these commitments were to direct investments, with £540m invested.

Berkshire
As at 31/5/15 Berkshire did not operate with "target" levels of asset allocation. The fund plans on increasing exposure to Infrastructure where appropriate opportunities are sourced with a maximum allocation of 15%.

Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.

The final agreed Infrastructure definition (which we have used to guide our responses) is as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets*
- *Long life and low risk of obsolescence*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked*
- *Revenues largely isolated from the business cycle and competition, for example, through long*

term contracts, regulated monopolies or high barriers to entry

- *Returns to show limited correlation to other asset classes*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, and social accommodation.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be. Infrastructure service companies would not normally be included.

2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or "fund of funds" arrangements.

(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.

YES. Please see details in Annex 4.

Attached as Annex number 4: **LPP's view on Infrastructure**

(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.

Confirmed YES. Please see details in Annex 4

(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing shared resources of other Pools and include a timescale for implementation of the initiative.

Attached as ANNEX number NOT APPLICABLE

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.
(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature. Strategic Asset Allocation is reserved for determination by the Administrating Authorities participating within the Pool. LPP believes and advises its investors that Infrastructure plays a key role in meeting the objectives a DB pension scheme. It will continue to develop capacity and access routes to allow its investors to efficiently and effectively deploy capital in this area. In aggregate LPP's clients' existing strategic benchmark allocations to Infrastructure sum to c. 1.1bn, with flexibility to increase to c.£1.6bn, equating to 10% + of pool assets.
(b) Please describe the conditions in which this allocation could be realised. The above figures are an objective as set out in the Strategic Asset Allocation for the members of LPP. As already noted, a significant proportion of this is already committed and "in the ground". Fully realising these objectives is dependent on LPPs ability to source specific investment opportunities which meet our risk and return objectives. **Annex 4** details our approach to sourcing, transacting and managing assets. It also outlines the challenges and how we seek to address these.

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LPP
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