



Hi everyone. Welcome to the May edition of our Newsletter.

After the slight delay in last month's edition I'm delighted that we're back on track! This month's edition includes our thoughts on DCLG's consultation on the opportunities for collaboration, cost savings and efficiencies in the LGPS, planning for the forthcoming governance changes including pension boards and much more. I hope you enjoy reading it.

People news

Firstly, we're delighted to announce that on 11 May, Arek's wife Kate gave birth to a perfect wee boy, Leo. Arek is now back at work following a period of paternity leave. Despite the sleepless nights he can't keep the smile off his face, awww! Secondly, we're really pleased that Loren Payne and Oliver Parry passed their Imperial exams, taking them even closer to qualifying as actuaries. We hope you'll join us in congratulating Arek, Loren and Oli.

Finally, to celebrate the end (well almost!) of what has been an exceptionally busy period, with the 2013 valuations closely followed by the accounting work, not to mention the actuarial exams, the team sought to blow away the cobwebs with a quick hike up Pen-y-Fan. Thankfully the rain largely stayed away and with Dan in the party there was no shortage of food (!).

Sadly they picked a day when I was at the NAPF Local Authority Conference and I suspect I was probably quaffing wine at dinner when this photo was taken!



DCLG's Consultation on the opportunities for collaboration, cost savings and efficiencies in the LGPS

DCLG's consultation was circulated just as we pressed *send* on last month's Newsletter. Our investment team recently issued a brief summary of our thoughts on the proposals. For those of you who haven't seen these, they are set out below. This will be one of the main topics covered at our conference on 4th June – if you haven't already registered, we'd love to see you there so please get in touch with your usual contact.

- We welcome increased collaboration as we believe that it has the potential to improve net investment returns, thus improving funding levels and the long term sustainability of the LGPS. Indeed, LGPS funds have already taken a variety of steps to increase collaboration, generating cost savings and greater efficiency already.
- At Aon Hewitt, we believe that there is a role for good active investment managers in all asset classes, and not least in the area of alternative investments, which can prove difficult for some investors with smaller governance budgets to access. Therefore, we especially support the potential for the development of a CIV for alternative investments as this is where we believe that the greatest savings can be made and the greatest efficiencies achieved: through the pooling of assets and expertise to lower cost, increase governance and improve access.
- Perhaps the most intriguing (and potentially controversial) element of the consultation is the consideration of the role of passive management for listed assets. The consultation responses to the Government's four proposed methods by which value for money might be best achieved in this area, and indeed the way in which the Government decides to move forward on this, is likely to be the most keenly anticipated. Our own view is that compulsion is not the answer and would potentially have unintended consequences, over both the short and long term.
- Further, there are some well documented shortcomings of market cap based passive management that need to be considered, and passive management represents a much broader range of investment options and investment decisions than it did even two or three years ago. Concerns around passive investment into bonds have long been debated: many investors are reluctant to make their largest allocation to a single issuer simply because they are the most indebted in an index, for example.

Aon Hewitt will be submitting a full response to the consultation which we will share with you in due course.

Other news: Governance and Implementation of Local Pension Boards

Many of you will be waiting with baited breath for the draft governance regulations in England and Wales. We've been liaising closely with DCLG and understand these are now expected in mid-June. Unfortunately this will be too late for our own conference in June, but there will be plenty of chances for you to hear our views on the draft regulations and, more importantly, our thoughts on how to implement the requirements, for example:

- Karen McWilliam will be hosting a **Governance Webinar** with Bob Holloway from DCLG as soon as the consultation on the new Regulations has been issued. The arrangements remain fluid, but at the time of writing we expect the webinar to be held on 25 June. Further details will follow as soon as we have a confirmed date; and
- Dan Kanaris and Karen will be speaking on this topic at a number of forthcoming **CIPFA events** - the CFO Briefings on 3 and 9 June (London and Manchester respectively) and then the CIPFA Pensions Networks on 2, 4 and 15 July (Manchester, London and Cardiff). If you are interested, please contact Neil Sellstrom: neil.sellstrom@cipfa.org.

One of our key recommendations is that you shouldn't wait until the final regulations in September/October to make your plans; make sure you engage with your Democratic Services Teams and Monitoring Officers as soon as the draft regulations come out. We'd also recommend setting up a Task and Finish Group and/or other delegated responsibilities to keep things moving over the summer period.

Finally, some of you may have seen the LGPS Governance Heads of Agreement in Scotland. It can be found here - http://www.unison-Scotland.org.uk/pensions/SLGPS2015_draftHeadsof%20AgreementonGovernance_May2014.pdf It describes an innovative approach to the creation of the Pension Boards in Scotland, with existing Pension Committees continuing to exist but meeting concurrently with the new Pension Boards. The new Pension Boards will have a minimum of eight representatives (together with Pension Committee members, this could result in rather large meetings) and the Heads of Agreement outlines a relatively prescribed process where the PC and PB cannot reach agreement.

On your radar?

This month's hot topics are set out below, so you can see what has interested other administering authorities.

2013 valuation results

As indicated in last month's Newsletter, we are working on an analysis of the valuation reports published on the Shadow Board's website, some of which we will be presenting at our LGPS conference next week. We have received several requests for an indication of the valuation results on a like-for-like basis and this is one element of the work we are doing. Do watch out for our valuation special over the next couple of weeks.

Asset-liability modelling and cashflow projections

Some administering authorities reviewed their investment strategy alongside the 2013 valuations but others are now turning their attention to their strategic asset allocation and considering whether the results of the 2013 valuation suggest that anything needs to change. As you might expect, there is a wide variety of approaches – from a detailed and sophisticated analysis incorporating a huge range of asset classes to more simple modelling of different allocations to equities and bonds, and even a high level look at the projected cashflows to and from the Fund.

Review of the Funding Strategy Statement

We have been in discussion with DCLG regarding the requirement in the 2013 Regulations for Funding Strategy Statements to be in place by 31 March 2015. As it stands, our understanding is that administering authorities will have to review their statements and consult with employers, despite having only very recently reviewed these as part of the 2013 valuations. The expected consultation on Miscellaneous Amendment Regulations may provide an opportunity to persuade DCLG to amend this requirement but obviously that's not a given. In the meantime, this is something administering authorities should be including in their planning for the year. As ever, if you would like our help with this please let us know.

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Factor reviews

Now that the 2013 valuations are complete and the new benefit structure is in place, now is a good time to review the factors in use by the Fund, including strain factors in particular. We are already in discussions about this with some of our administering authority clients and hope to offer a portfolio-wide service to deliver greater efficiency. Please look out for further details.

Conferences and Meetings

Administration and Communications Sub Committee – Dan Kanaris attended the latest Administration and Communications Sub Committee meeting on 8 May. There were plenty of interesting discussions and opinions, particularly around the structure of ill-health benefits and how they are applied in the LGPS, which will all be fed back to the next meeting of the Shadow Scheme Advisory Board. The sub-committee's next meeting is scheduled for early September.

NAPF Local Authority Conference – Karen McWilliam, Dave Lyons, Chris Archer and I attended the NAPF LA Conference on 19-21 May at the Four Pillars Hotel at the Cotswolds Water Park. It was a very busy event as always and it was great to catch up with so many of you there. The conference title was "The Changing Face of the LGPS", and the topics covered included delivery of the new benefit structure, proposed governance changes and the aforementioned DCLG consultation following responses to the Call for Evidence. The most popular session (in terms of attendance anyway) was the Minister's speech on the future of the LGPS. If the audience reaction is anything to go by he should be expecting some robust responses to the consultation!

See you at.... **Aon Hewitt's Annual LGPS Conference**, various **CIPFA events** and our **Governance Webinar** (virtually), all mentioned previously.

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