LGPS Pooling

ACS Vehicle
State Street has a long association with the Local Government Pension Scheme, with some client relationships dating back more than 25 years.

With asset pooling set to dramatically impact the industry, we recognise that regulated vehicles will be at the forefront of this change. As one of the UK’s largest providers of investment administration services for Authorised Contractual Schemes, we can support the industry and guide the newly formed pools through what is often a complex and confusing process.

Our dedicated team has a wealth of industry knowledge and experience and stands ready to deliver solutions tailored to your specific needs.

JOSEPH L. HOOLEY
Chairman and
Chief Executive Officer
State Street Corporation
Authorised Contractual Scheme
Background

In July 2013, the UK introduced its own version of a ‘tax transparent fund’, the Authorised Contractual Scheme (ACS). This was introduced partly to compete for a share of the European pooled funds market following the introduction of master-feeder structures in the Undertakings for Collective Investment in Transferable Securities ("UCITS") IV Directive.

We have seen an increase in interest from our clients from all sectors for this new investment vehicle, as an ACS represents an opportunity for multiple investors to pool assets within a single fund structure, achieving cost efficiencies through rationalisation, management, administration and economies of scale, while retaining each investor’s tax profile.

An ACS may be a suitable tax-transparent investment vehicle for a range of investors depending on requirements. Importantly, it offers benefits to investors seeking operational efficiency through consolidation of their existing fund structures, without compromising the tax efficiency for underlying investors.

It is therefore unsurprising that these themes align with the Government’s proposals for LGPS, where the administering authorities have been asked to pool their assets to generate better outcomes in a more efficient way.
ACS Structure

An ACS is a type of collective investment vehicle created to hold and manage assets on behalf of a number of investors (participants) who are the co-owners of the assets. Unlike other UK collective investment vehicles, such as OEICs or unit trusts, an ACS has no legal personality and does not constitute an entity in its own right. Legislation allowing the creation of ACS structures was enacted in the UK in July 2013.

An ACS can take the form of either a co-ownership or limited partnership structure. Co-ownership is proving more popular to date as it offers further options in terms of scheme structure. An ACS may be established as a UCITS, Non-UCITS (NURS) or Qualified Investor Scheme (QIS).

- UCITS and NURS vehicles are suitable for retail investors but are somewhat restricted in the type of investments they may hold.

- QIS vehicles are suitable for professional investors, such as LGPS, and have very few investment restrictions. They are able to invest in direct property and unregulated schemes/funds.

As an ACS has no legal personality of its own, it is not a taxable entity. It is considered tax transparent as each participant is responsible for tax arising on their own share of income and gains at their own rates of tax. There are several similar tax-transparent investment vehicles in other European markets, most notably the Common Contractual Fund (CCF) in Ireland, The Fonds Commun de Placement (FCP) in Luxembourg and Fonds voor Gemene Rekening (FGR) in the Netherlands can also be structured in a tax-transparent manner.
ACS Requirements

An ACS must be authorised by the Financial Conduct Authority, and requires:

- An Operator (or manager) who is responsible for the operation of the scheme and decisions about the investment of participants’ assets
- A Depositary that is responsible for holding and safeguarding the assets on behalf of the participants of the scheme
- Both the Operator and Depositary to be FCA authorised as well
Key Benefits of an ACS

1. Consolidated Fund Structure
   An ACS offers the opportunity for multiple pension funds to pool assets into an optimal structure that removes duplication of process, both from an asset management and an investment administration perspective. For example, multiple investment mandates can be consolidated into one mandate per asset class – UK equity, US equity, Direct Property, etc.

2. Increased Liquidity
   The consolidation of like assets within an ACS commonly creates larger asset pools while reducing the number of individual portfolios. This can create better liquidity in asset classes where greater scale is beneficial. We have seen a number of Property ACSs being launched for this reason.

3. Oversight Provided by Depositary
   As a UK-regulated fund, an ACS also benefits from the oversight provided by a Depositary who acts independently from the ACS Operator.

4. Reduction of Counterparty Risk
   An ACS offers participants reduced levels of counterparty risk, particularly credit risk, when compared to investing via a life company structure.

5. Increased Distribution Potential
   The operator of an ACS is able to efficiently manage the asset pools of multiple clients within a single ACS structure, regardless of the client’s domicile or tax status.

6. Tax Transparency
   Multiple participants with differing tax statuses can invest into the same ACS without compromising their individual tax efficiency.
State Street Experience
State Street has been servicing tax-transparent structures permitted in a number of EU jurisdictions since 2004 and currently administers over 60 tax-transparent funds, including multi-class and multi-manager structures across a broad spectrum of asset classes, investment markets and investor profiles. Our pooling proprietary technology enables us to have control over change, investor and client reporting as well as speed to market on any developments required.

State Street Solution
State Street offers an end-to-end solution and a consultative approach to the design, launch and administration of bespoke ACS structures. The comprehensive offering includes custody, accounting, depositary, transfer agency and administrative services.

With over a decade of experience in servicing similar tax-transparent funds across Europe, this expertise enables our clients to focus on their individual asset allocation strategy and managing those assets – while we take care of the rest.

State Street administers the full breadth of tax-transparent fund structures within a single global platform. Notably, this platform has the ability to adapt and evolve either in anticipation or as a consequence of regulatory change. This expertise is delivered through a bespoke ACS operating environment supported by: dedicated tax professionals; promoter round tables; legal and investment consultant forums; and ongoing engagement with HMRC.
As well as our proven track record in the tax transparent markets, State Street also has experience of working in partnership with clients taking a concept for an ACS from design through to launch and ongoing administration. State Street’s consultative approach, delivered through experienced subject matter experts, provides insights into best practice, practical examples and potential pitfalls, which are a key benefit we can bring as a partner to a client seeking to utilise an ACS structure.

State Street considers tax-transparent funds as a key investment vehicle for our clients who require specialism and focus. Therefore, we have established specialist teams in the two key service areas.

**Tax**

We have an experienced team of dedicated tax professionals focused on tax transparency. The focus of this team is on market research, product development and implementation, and the evolution of products with tax requirements.

**Accounting**

Our dedicated tax-transparent funds Accounting Team has the knowledge and expertise to support clients in the development and establishment phase of the set up, as well as the ongoing service delivery of a tax-transparent fund.
Technology requirements to administer an ACS

In addition to requiring a service provider with the ability to provide a strong service capability in respect of the administration of collective investment vehicles, a client seeking to use a tax-transparent fund requires further capabilities including:

- Pooling functionality with core accounting technology ensuring, *inter alia*, the automatic allocation of withholding taxes to the investors

- The ability to provide the unit holders with granular and transparent reporting to meet either fiduciary, governance, taxation or trustee requirements

- Automated flows of investors’ entitlements to local sub-custodians

- A flexible custody network to deal with the tax-transparency needs in an efficient manner, with the ability to adapt to tax changes in investment markets
Different Roles and Responsibilities within an ACS

Operator (Authorised Contractual Scheme Manager)
Must manage the ACS in accordance with the regulations and the scheme documentation. The ACSM must:
• Ensure assets are managed in accordance with the objectives and policy of the ACS and in line with investment and borrowing powers
• Ensure correct pricing of assets and shares
• Keep portfolio and investor records
• Issue and redeem shares
• Arrange publication of prices
• Carry out regular valuations
• Issue annual/half-yearly financial reports
• Operate in accordance with FCA principles

Depository
Is responsible for the safekeeping of all of the property of the ACS. It is the duty of the Depository to take reasonable care to ensure that the ACS is managed by the ACSM in accordance with the regulations and the scheme documentation.

Custodian

Key delegated or outsourced functions

Investment Manager

Fund Accountant

Transfer Agent
Case Study

Authorised Contractual Scheme

Investment Accounting Support

Client Description
A UK-based life & pension insurance company with £200 billion in assets under management.

Their Challenge
• Client needed greater transparency into their alternative asset pools across a fragmented investment structure
• Improve liquidity of alternative assets, specifically real-estate investment vehicles
• Tax-efficient solution required to avoid impacting the investment performance of in-scope assets

Our Solution
• Using our expertise in servicing alternative asset classes and experience in the design and administration of tax-transparent vehicles, we developed a solution that:
  – Used an authorised contractual scheme (ACS) to create a tax-transparent investment structure
  – Consolidated in-scope assets into the ACS structure, optimising their liquidity
  – Improved asset pool transparency and timeliness of regular reporting tailored to client’s individual requirements

The Result
• Previously fragmented investment structure replaced by a bespoke design specifically created for the client’s in-scope assets
• Asset liquidity significantly enhanced, thus improving the managers’ ability to adjust the asset mix when required
• With greater transparency into their alternative asset pools, the client now has the confidence to develop the asset class to its full potential

To achieve economies of scale, State Street also provides the following administrative services:
• Customised investor reporting
• Risk and compliance monitoring
• Financial statements
• Assistance with tax rulings and opinions
• Annual audit support
ANDY TODD
Head of Pensions & Banks, UK Asset Owner Solutions

Andy is responsible for the strategic development of State Street’s Pension and Bank client relationships in the UK, with a particular focus on Authorised Contractual Scheme (ACS) structures. He is also responsible for the co-ordination of State Street’s European DC Pension services.

Andy joined State Street in 2003 as a Relationship Manager responsible for some of our largest UK and European clients, after holding a similar role with Deutsche Bank from 1999. He managed new asset transition and client services groups with Bankers Trust Company for five years, after having spent seven years in operational roles with Bank of Scotland Custody & Settlement Services. In total, Andy has nearly thirty years’ experience in Investment Services. He is a member of The Chartered Institute of Bankers in Scotland and is registered as an Approved Person with the UK Financial Conduct Authority. Andy is also a Member Nominated Trustee of State Street’s UK Staff Pension Schemes, co-chairing both the Administration & Risk and Member Communication sub-committees.
ANDREW DODD
Head of Product for UKMEA Global Services

Andrew is a qualified accountant with over 20 years’ Financial Services experience. Andrew joined State Street in July 2008 taking on the role of Head of Regulated Funds Services London, responsible for financial reporting and NAV production.

In January 2015, he was appointed as the Head of Product development for UKMEA Global Services, where he is the lead and overall owner of product development, including the management and implementation of regulatory change and development of new and existing products. Andrew has extensive experience of UK Products, managing teams responsible for Financial Reporting and NAV production across OEICs & Unit Trusts, Investment Trusts and Life and Pension Funds.
NEIL MARSHALL
LGPS Relationship Manager

Neil is responsible for LGPS strategy and relationships within the Bank, ensuring exceptional standards are maintained across the client base. His extensive network within the industry dates all the way back to his role within the WM Company previous to joining State Street in 2003. He has 20 years’ experience in the investment services industry and performed a variety of operational, project management and relationship management roles spanning multiple products, over that time.

MARK PHILIP
LGPS Relationship Manager

Mark is responsible for a number of LGPS relationships within the bank. He has worked within the industry for 30 years, covering both operational and client service activities. He also worked within an investment management firm in a senior role for four years. Mark is an MBA graduate from Edinburgh University Management School. Mark has gained valuable industry insight from his dealings with a wide range of clients across his career.
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