Exemptions from pooling of LGPS assets

The default position should be to pool assets. If it is not immediately possible to pool assets, a clear transition timetable should be in place. Any proposed exemptions must include a detailed value for money justification, drawing on estimated transition costs and forecasts of ongoing administration and investment costs.

The table below sets out the asset classes that funds have suggested could be possible exemptions, alongside our position in principle.

Life Policies	We recognise there are difficulties in moving life policies into a structured fund, including valuation, tax and legal uncertainties. Using a depositary as the insured party may risk the favourable tax treatment for pension funds. Pools may therefore continue to hold existing life funds in the name of the current insured party but it is expected that the management and reporting regarding these life funds is done within the pool. It is our understanding that the advantages of life funds within certain asset classes (principally current lower cost due to very large scale of life funds) will be eroded over a reasonably short period of time and therefore pools will be expected not to write any new life fund business after April 2018 without having gone through a detailed VFM process that demonstrates a clear financial case for doing so.
Existing directly held property investment	The November guidance accepted there was a case for holding property that is already directly owned outside of the pool but that this should be kept under review and that new property holdings should be held within the pool. As a result of recent tax changes, for initial seeding transactions only, UK property can be transferred into an ACS without attracting Stamp Duty Land Tax. Funds are therefore asked to review their proposals taking this new situation into account. If these assets are currently internally managed, it will need to be clear who will manage them in the future and what costs are associated with this.
Illiquid assets	The default position should be to pool illiquid assets over a timescale that allows for the most beneficial fund structure and transaction cost scenario. Redemption penalties and other costs of early termination should be a primary consideration in the timing of the transition of long dated contractual arrangements. Although the ACS structure is capable of holding some forms of illiquid assets there are a variety of other fund structures, which are compared in the advice from PwC that was published in

	tandem with the pooling criteria and guidance; it states "establishing the ACS as a QIS provides a vehicle which can invest in a wide range of alternative assets and thereby may enable use of one type of CIV structure for all investment types".
Local investments	There are a variety of fund structures available to the pool which would make it possible to bring local investments within the pool. However there may be occasions when such holdings need to be ear-marked to particular funds even though the management and reporting in relation to them is done within the pool. If these are currently internally managed, it will need to be clear who will manage these assets in the future and what cost are associated with this. We accept there may be justification to retain some local investments completely outside of the pool. This will be reviewed on a case-by-case basis and any submission for an exemption should include a clear VFM case.
Buy-ins + risk management assets	These assets can be pooled once skills and resources are available. When they are managed within pools, we recognise that they may need to be ear-marked to particular funds.
Hedging instruments	Many funds will have hedging instruments. As a default these would be expected to move into the pool and be reconsidered in the context of any overall hedging strategy for the pool. However requests for exemptions will be reviewed on submission of a clear VFM case.
Working Capital / cash	We recognise cash is used to ensure funds have the liquidity available to pay pensions and drawdowns as-and-when required. We expect there will be some cash management within the pool, for example due to dividend receipts etc. Pools should confirm in their submissions that participant funds will continue to hold, outside of the pool, the necessary level of cash to meet the requirements of prudent operational cash flow forecasts.