



Joint submission to government in response to the DCLG issue of *Local Government Pension Scheme: Investment Reform Criteria and Guidance*

5 February 2016

In the July Budget 2015, the government announced its intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. In November 2015, the government published *Local Government Pension Scheme: Investment Reform Criteria and Guidance* which asked for submissions from funds on their proposals to meet the four specified criteria.

Initial submissions should include a commitment to pooling and a description of progress towards formalising arrangements with other authorities. This is a joint submission on behalf of LGPS Central, a collaboration of nine LGPS Funds, all based in the Midlands, who are working together to create an investment pool of around £35 billion.

The following funds have committed to be involved in the creation of LGPS Central:

- Cheshire Pension Fund
- Derbyshire County Council Pension Fund
- Leicestershire County Council Pension Fund
- Nottinghamshire County Council Pension Fund
- Shropshire County Pension Fund
- Staffordshire Pension Fund
- West Midlands Pension Fund
- West Midlands ITA Pension Fund
- Worcestershire County Council Pension Fund

Six of the funds involved have already collaborated on a joint procurement exercise, realising significant savings on passive investment fees. This demonstrates the ability to work together and achieve agreement through open and constructive discussion. This approach forms a firm basis for the creation of LGPS Central.

Officers of the participating funds have been meeting regularly since November 2015 and are continuing to meet on a fortnightly basis to ensure the tight timescales for establishment of the pool are met. An event was held in January 2016 for the Chairs, Vice-Chairs and chief finance officers of each participating fund to meet and talk through progress to date and how it is envisaged that the pool will meet the criteria set by government.



A. Asset pool(s) that achieve the benefits of scale

The collaboration will see the creation of a multi asset investment pool of around £35 billion in size, meeting the scale sought by the Government in its investment pooling criteria. It is expected that all investment will be made through the pool over time although the transition period for illiquid assets will extend beyond 2018. Participating funds will consider if they propose to hold assets outside the pool where this can demonstrate clear value for money. Any assets that are held outside of the pool will be kept under review.

The pool will aim to deliver cost savings and to build on the individual participating funds' strong investment knowledge and performance by providing scale, increased resilience and knowledge sharing. The new investment pool will offer access to both internal and external investment expertise.

B. Strong governance and decision making

The pool will ensure robust governance and decision making arrangements with equal say in the oversight of the new entity to each participating Fund. Preliminary investigations have been made into the process and possible structures for the pool and discussions are being held with the other emerging pools on procuring joint external advice. At this stage, no decision has been made over the structure but options being considered include:

- A joint committee
- FCA regulated operating company overseeing pooled vehicles including authorised contractual schemes (ACS), unit trusts and limited partnerships

The final structure will ensure a clear link between the pool and the governance structures in each participating fund. Decisions over investment strategy and strategic asset allocation will remain with individual funds.

A "Statement of Commitment" has been agreed to outline the key characteristics and investment beliefs of the pool, and this is attached below. A detailed work plan is being formulated to determine the structure of the pool, the internal and external resources required and the timescales for establishing the pool and moving assets.

C. Reduced costs and excellent value for money

The pool has already begun to collate data on costs incurred by participating funds for years ending 31 March 2013 and 31 March 2015. This is being collected on a consistent basis and will be analysed to inform the detailed submissions required in July. The pool is expected to generate savings over the long term but implementation and transition costs are likely to be significant.

The size of the pool will enable significant savings to be made on external management fees. A number of participating funds have internal investment expertise which is recognised to be relatively low cost and it will be difficult for these funds to achieve cost savings. However, additional savings will be realised through stronger procurement of supporting services and the building and sharing of expertise across funds, particularly in alternative asset classes.

The pool intends to work collaboratively with the Local Government Pension Scheme more widely and with the other emerging pools. Procurement will be undertaken where possible through the LGPS National Frameworks, other approved frameworks or jointly with other LGPS pools.

D. An improved capacity to invest in infrastructure

Consideration will be given to participating funds' current asset allocation and the best ways to access all asset classes including infrastructure. It is recognised that infrastructure has a role to play for many LGPS funds given their long term liabilities and the nature of returns from infrastructure. Analysis of participating funds' current allocations to infrastructure shows that LGPS Central already has a higher than average allocation to the asset class and that this has increased substantially since 2013. Funds also invest in infrastructure assets (in areas such as energy, utilities, logistics and housing) through their allocations to property, bonds and listed equities.

Participating funds within LGPS Central have different funding levels and deficit recovery profiles and so have differing risk appetites and return requirements from infrastructure. It is expected that an LGPS infrastructure platform will be set up that will allow all LGPS funds to access the asset class in a manner that is low-cost and also allows individual funds to match their required risk/return profiles. LGPS Central will ensure that appropriate cost-effective ways of accessing infrastructure are available, which may include building on internal expertise.

