<u>Outline Tri-Borough Consultation Response</u>

The pension funds of London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea, along with the Westminster City Council Pension Fund began working together to reduce the costs of managing pension fund and council investments in February 2012. Hence, we welcome the opportunity to respond to the Minister's second Call for Evidence on the future management of the LGPS.

The Tri-Borough fund's responses to the questions raised in the consultation are set out below:

1. **Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.**

The Tri-Borough grouping firmly believes that common investment vehicles (CIVs) would allow groups of funds to achieve economies of scale and deliver significant savings. Some managers have already aggregated fees where two authorities have the same mandate and there is every reason to expect that by coming together with other funds, further savings could be achieved.

Tri-Borough officers have been involved extensively in setting up the London CIV which is expected to be operational in early 2015.

2. **Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?**

Yes. This is an important means of maintaining local accountability and in managing deficits.

3. **How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?**

When considering how many vehicles should be established, it is important to recognise that in investment there are diseconomies of scale as well as economies. Bigger is not necessarily better and it would be sensible to have an element of competition to enable performance to be compared.

We believe that some investment strategies have a natural ceiling to the amount of assets that can be actively managed before diminishing returns start to apply. Hence, many of the best managers close strategies when they have reached a capacity limit.

4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

A CIV needs to have the following characteristics:

- Appropriate for professional institutional investors to pool assets;
- Capable of supporting a range of separately managed ring-fenced sub funds;
- A flexible regulated investment fund vehicle adapted to any type of investment strategy;
- Efficiently run and cost-effective;
- Appropriately regulated;
- Have assets held by an appropriate custodian/depositary;
- Tax efficient with regard to any capital gains or income tax at fund level;
- Give appropriate access to Dual Tax Treaties to minimise Withholding Tax;
- Suitable for a wide range of investment strategies including conventional and alternative assets.

5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, scheme members and employers?

We believe that long-term active asset management can play a key role in reducing deficits and contribution levels and making the LGPS affordable for generations to come. We do not think it will be possible to eliminate fund deficits through passive management alone.

Managers and advisers as well as the officers are currently putting together evidence in support of the views set out here.