**Local Government Pension Scheme**

**Statutory Guidance on Asset Pooling**

**Consultation Response**

The Council welcomes the opportunity to respond to the draft statutory guidance on asset pooling.

**Mandatory Approach**

Looking at England and Wales in total, the guidance makes pooling mandatory even when there is a potential loss to the administering authority of following the guidance. There will be a number of occasions where the cost of the pool's offering may be higher than is currently being paid. In this instance, there should not be a requirement to pool assets where the cost to the local authority has not decreased, or the fee structure is not consistent with the current, agreed, low cost arrangements.

**Accountability**

The guidance envisages that the Administering Authorities will delegate their investment management processes to the pool. Administering authorities and their pension fund committees that are delegated with responsibility for manager selection will continue to be held accountable for the performance of the Pension Fund by the decisions that they make, and will still hold fiduciary responsibility but, under the new pooling proposals, will not have the decision-making powers over manager selection. It needs to be clear in communications to members and officers that there have been changes to accountability, such that for pooled funds, strategic asset allocation is the responsibility of committees, but manager selection is not.

**Fee Savings**

The guidance document assumes that pooling is a solution that works and that the Government's criteria on structure and scale are proven. Pooling has undoubtedly resulted in numerous well reported instances of lower fees, but a combination of frameworks, competitive procurement and collaborative LGPS fee scales had already achieved notable fee savings, outside of pooling in some cases.

With pooling, there are significant overheads arising from the implementation and operation of the pools. Moreover, the full impact of LGPS pensions provision for pool employees (where this is made available) is not yet costed in some pools. The cost/benefit equation is not yet proven in the long term.

With regard to net of fees outperformance, fund objectives on investment will come about from sustained benchmark outperformance, not singly from cost reduction. The long-term cost/benefit equation will not be available for at least five years, so it far too early to tell yet as to whether pools will produce consistent outperformance over benchmarks that some well-run administering authorities, by themselves, have generated over many years.

**Large Client Base**

With regard to the London Collective Investment Vehicle (LCIV), given London's wide range of investment styles, investment strategies, funding levels and cash flow positions, the challenge of dealing with a wide spectrum of requirement will result in LCIV requiring a large product base than the other pools.

Thus, with the LCIV required to please many stakeholders, the scope for economies will be much reduced. This makes the link to a mandatory approach to pooling far more tenuous in terms of an optimal outcome reference superior investment returns and low cost.

**Active/Passive**

On Funds considering moving from active to passive management where active management has not generated better net performance over a reasonable time period, this is regarded as over simplistic and fails to take account of the complicated funding challenges which LGPS administering authorities have to meet, particularly those that have past deficits to eliminate, or those who have negative cash flow and require investment income to meet pension payments. Passive management is not a panacea for these particular challenges.

We do not support the pool being involved in the decision of active or passive management. Such a choice arises from a strategic decision and sits 100% with the Administering Authority.

**Infrastructure**

We agree that infrastructure has the potential to provide secure long-term CPI protected returns for the Fund. However, reference should be made to the need to fully understand the risk/return equation and implications for illiquidity, as well as the existence of other asset classes that can provide the same types of protected returns.

**Investing in Other Pools**

Mention is made to the potential for investing in other pools. There is a lack of clarity as to which type of investment this may apply to, the criteria for making such a decision, and how this would work in practice from both the Fund perspective and from the Pools' perspective (i.e. the Fund's current Pool and any alternative Pool being considered). In practice, the costs of servicing an authority outside a pool's usual participants may cause pools to reject "outside" participation.

**Threshold for Investing Outside the Pool**

The current guidance indicates that passive life funds sit outside the pool and that from 2020, pool members should make new investments outside the pool only in very limited circumstances. We question whether life funds should be deemed as not pooled, as they are effectively pooled with other investors of the investment manager and have LGPS collaborative fee scales.

The threshold of 5% for making investments outside the pool is far too low and should be in the region of 20%.

**Our Preference**

Given the concerns that we have expressed above, our preference would be that the existing guidance and regulations should encourage rather than give compulsion to pooling. Prior to compulsion, the Council would prefer to see hard, long-term evidence of better investment outcomes arising from pooling.