London Borough of Hammersmith & Fulham

Pensions Sub-Committee

Agenda

Wednesday 16 March 2016
7.00 pm

Committee Room 3 - Hammersmith Town Hall

MEMBERSHIP

Administration:	Opposition:
Councillor Iain Cassidy Councillor PJ Murphy Councillor Guy Vincent	Councillor Michael Adam Councillor Nicholas Botterill

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http://www.lbhf.gov.uk/Directory/Council_and_Democracy

Members of the public are welcome to attend. A loop system for hearing impairment is provided, along with disabled access to the building.

Date Issued: 08 March 2016

London Borough of Hammersmith & Fulham

Pensions Sub-Committee
Agenda

16 March 2016

10. EXEMPT MINUTES OF THE PREVIOUS MEETING 138 - 140

To approve as an accurate record and the Chair to sign the minutes of the exempt discussion at the meeting held on 25 November 2015.

11. ASSET POOLING AND LONDON CIV 141 - 146

This report presents an update on London Collective Investment Vehicle (CIV) and asks Members' to consider a transfer of assets.

This item is in addition to agenda item 6 as it contains exempt information.

12. REVIEW OF TRANSITION FROM MFS TO LGIM 147 - 153

This report reviews the decision to transfer assets to a global passive equity mandate with Legal & General Investment Management (LGIM).

This item is in addition to agenda item 7 as it contains exempt information.

13. PENSION FUND INVESTMENT STRATEGY 154 - 165

This report presents the current asset allocation and asks Members' to consider the Pension Fund Investment Strategy.

**If a Committee member has any prejudicial or personal interest in a particular item they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.*

At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken unless a dispensation has been obtained from the Standards Committee.

Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee.

London Borough of Hammersmith & Fulham

Pensions Sub-Committee

Minutes

Wednesday 25 November 2015

PRESENT

Committee members: Councillors Michael Adam, Iain Cassidy (Chair), PJ Murphy and Guy Vincent.

Other members: Councillor Rory Vaughan.

Officers: Ibrahim Ibrahim (Assistant Committee Coordinator), Neil Sellstrom (Interim Head for Pensions Shared Service) and Nicola Webb (Pension Fund Officer).

External: Alistair Sutherland (Deloitte).

29. MINUTES OF THE PREVIOUS MEETING

RESOLVED –

THAT, the minutes of the meeting held on 9 September 2015 were agreed as a correct record and signed by the Chair.

30. APOLOGIES FOR ABSENCE

There were no apologies for absence.

31. DECLARATIONS OF INTEREST

There were no declarations of interest.

32. PENSION FUND QUARTERLY UPDATE PACK

The Committee received an update on the Pension Fund for the quarter ending 30 September 2015.

Pension Fund Risk Register

David Coates (Interim Payroll Manager) provided the Committee an update on the Council’s transition from Capita to Surrey County Council (SCC), as the Local Government Pension Administration Service provider. It was noted that there were no administration performance indicators available for this quarter, as SCC had been provided a three month ‘settling in’ period from 1 September 2015. Performance indicators would be available from January 2016.

Members were informed that that the pension client team had identified a number of data deficiencies in the data inherited from Capita and that the Client Team were meeting with SCC on a regular basis to address these issues. In addition, shortfalls in the quality of data inherited data were being raised with Capita to determine the cause and identify what measures could be put in place to rectify these deficiencies. Members were additionally informed that as a result of the data deficiencies, the Client Team were taking considerably longer to calculate the data although no additional staffing resources had been required at this stage.

Members were concerned of the impact on scheme members and felt that it would be appropriate to write to scheme members outlining the issues identified. However, David Coates felt that this would cause unnecessary concern as the client team did not understand the fully understand all of the issues at this time. It was noted that a plan had been put in place and it was expected that all data anomalies would be identified by December 2015. Members requested an update once the full extent of the problems were fully understood, prior to the next meeting of the Pensions Sub-Committee.

ACTION: David Coates

Pooling of Investments

Neil Sellstrom (Interim Head of Pensions Shared Service) drew Members attention to page 60 – 73; appendix 7 of the report, which provided further information about the consultation on pooling of LGPS investments. It was noted that the consultation document had been issued earlier on 25 November 2015 and that this would be circulated to Members.

ACTION: Neil Sellstrom

Deloitte Quarterly Report

Alistair Sutherland (Deloitte) provided the Committee an update on the investment performance as outlined on pages 13 – 37; appendix 2 of the report. It was reported that Ruffer (Absolute Return) had underperformed its target by 5.6% over the quarter, net of fees and that it was marginally behind its target over the one year period to 30 September 2015 by 0.1%, net of fees. Members requested an update on the performance of the fund for October 2015, as these figures were not currently available.

ACTION: Nicola Webb

Majedie (UK Equity) performed negatively over the quarter, underperforming the FTSE All Share by 1.0% although Majedie remains ahead of the benchmark and target over the three years to 30 September 2015 by 6.3%

p.a. and 4.3% p.a. respectively. It was additionally noted that Majedie were having ongoing discussions with the London CIV (Collective Investment Vehicle) regarding its products, specifically the UK Equity Strategy.

RESOLVED –

THAT, the report be noted.

33. PENSIONS BOARD AND TRAINING UPDATE

Nicola Webb drew Members attention to the training dates that had been arranged for November 2015. It was noted that once these sessions had been delivered, Members of both the Pensions Sub-Committee and Pensions Board would be asked to complete the knowledge and skills self-assessment form in the policy statement to enable further training needs.

RESOLVED –

THAT, the report be noted.

34. PENSION FUND LONG TERM CASHFLOW

Nicola Webb introduced the report, which was in addition to the quarterly update pack as outlined from pages 9 – 80, of the report. It was reported that the cash in the sterling liquidity fund was forecast to be sufficient to meet the cashflow needs, including drawdowns in the Fund's infrastructure investment, until March 2017. However, there would be an interim period between 2017 and 2021, which would require funding. It was agreed that a further report on the longer term position would be presented to the Sub-Committee by December 2016, to consider the forecast and propose a strategy for the period 2017 to 2021.

RESOLVED –

THAT, the report be noted.

35. SCHEME ADVISORY BOARD KEY PERFORMANCE INDICATORS

The Committee received a report on the Scheme Advisory Board, which had developed a number of key performance indicators that enable it to identify any LGPS Funds causing concern. Neil Sellstrom confirmed that the indicators had been completed in response to the Scheme Advisory Board and that a summary of responses from all 89 Funds would be published in early 2016.

RESOLVED –

THAT, the report be noted.

36. DATE OF THE NEXT MEETING

16 March 2016.

37. EXCLUSION OF THE PUBLIC AND PRESS

The Chair requested for any members of the public and press to leave the meeting room, as all the public reports had been heard and the Committee were then moving onto exempt items.

RESOLVED –

THAT, under section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined by paragraph 3 of Schedule 12A of the said Act and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

38. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED –

THAT, the exempt minutes of the meeting held on 9 September 2015 were agreed as a correct record and signed by the Chair.

39. PASSIVE EQUITY INVESTMENT

RESOLVED –

THAT, the report be noted.

40. INVESTMENT STRATEGY

RESOLVED –

THAT, the report be noted.

Meeting started: 7:00pm
Meeting ended: 9:00pm

Chair ....

Contact officer: Ibrahim Ibrahim
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Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

Pensions Sub-Committee – 2015/16 Action Tracker

Meeting	Item and Minute number	Action	Lead Officer	Completion Status
2015/16 Action Tracker				
24 June 2015	Pension Fund Quarterly Update Pack (5)	Nicola Webb to propose a strategy to resolve the expected negative cash flow position in Q3.	Nicola Webb	Yes
24 June 2015	Pension Fund Quarterly Update Pack (5)	Nicola Webb to raise Members concerns with Debbie Morris regarding the Council's transition to SCC in respect of the data transfer and pensions payroll. In response, Debbie Morris agreed to provide a written update to the Sub-Committee.	Debbie Morris	Yes
24 June 2015	Pension Fund Quarterly Update Pack (5)	Nicola Webb to seek clarification from the Fund Actuary regarding suggestions that a higher contribution rate would be required.	Nicola Webb	Yes
24 June 2015	Knowledge and Skills Policy (7)	Nicola Webb to provide a detailed knowledge and skills self-assessment form for Members	Nicola Webb	Yes
24 June 2015	Knowledge and Skills Policy (7)	Nicola Webb to arrange a joint meeting of Members from the Pensions Sub-Committee and Pensions Board.	Nicola Webb	Yes
24 June 2015	Investment Strategy Next Steps (14)	David Hodgkinson to contact Manchester City Council to identify options and implications to local fund investments.	David Hodgkinson	Yes
24 June 2015	Investment Strategy Next Steps (14)	Investment Adviser to prepare a report explaining each asset classes and how they fit into the overall structure of the fund.	Neil Sellstrom	Yes
24 June 2015	Investment Strategy Next Steps (14)	Investment Adviser to prepare a report providing an explanation and comparison of potential options covering traditional passive, enhanced indexation and smart beta along	Neil Sellstrom	Yes

		with the products and providers available.		
24 June 2015	Investment Strategy Next Steps (14)	Members to meet with Fund Managers prior to the next meeting.	Neil Sellstrom	Yes
24 June 2015	Investment Strategy Next Steps (14)	Investment Adviser to prepare a report providing an explanation of diversified asset allocation and diversified growth funds.	Neil Sellstrom	Yes
9 September 2015	Pension Fund Quarterly Update Report (18)	It was understood that a higher contribution rate would be required in the future and that the Fund Actuary would provide further clarification.	Neil Sellstrom	Yes
9 September 2015	Pension Fund Quarterly Update Report (18)	Nicola Webb to propose a strategy to resolve the long term cashflow position.	Nicola Webb	Yes
9 September 2015	Pension Fund Quarterly Update Report (18)	Members were concerned that risk item number 18 and 23 were described as a ‘medium’ and ‘very low’ risk respectively. Nicola Webb agreed to refer these concerns to Hitesh Jolapara (Director for Finance) and Debbie Morris (Bi-Borough Director for HR).	Hitesh Jolapara and Debbie Morris	Yes
9 September 2015	Pension Fund Annual Report and Accounts (19)	Members requested a ‘like for like’ comparison to be included as part of the management expenses section of the annual report.	Nicola Webb	Yes
9 September 2015	London CIV Update (21)	Neil Sellstrom to confirm whether or not the Fund would be able to request money back in the future if it was to withdraw from the London CIV.	Neil Sellstrom	Yes
9 September	Investment Strategy	Members to meet with passive fund managers from week	Nicola Webb	Yes

2015	Next Steps (28)	commencing 28 September 2015.		
9 September 2015	Investment Strategy Next Steps (28)	Members to meet with Fund Managers prior to the next meeting.	Neil Sellstrom	Yes
25 November 2015	Pension Fund Quarterly Update Pack (32)	Members requested an update once all data anomalies had been identified and the full extent of the problems were fully understood regarding the transfer of pensions administration services from Capita to Surrey County Council.	David Coates	Yes
25 November 2015	Pension Fund Quarterly Update Pack (32)	Neil Sellstrom to circulate LGPS consultation document to Members.	Neil Sellstrom	Yes
25 November 2015	Pension Fund Quarterly Update Pack (32)	Members requested an update on the performance of the fund for October 2015.	Nicola Webb	Yes
25 November 2015	Investment Strategy (40)	Members requested further analysis as set out in the exempt minutes.	Neil Sellstrom	Yes

Agenda Item 4

London Borough of Hammersmith & Fulham PENSIONS SUB-COMMITTEE 16TH MARCH 2016	h&f hammersmith & fulham
PENSION FUND QUARTERLY UPDATE PACK	
Report of the Strategic Finance Director	
Open Report	
Classification - For Review & Comment **Key Decision: No**	
Wards Affected: All	
Accountable Executive Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Nicola Webb, Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report is the Pension Fund quarterly update pack for the quarter ended 31st December 2015. The scorecard in Appendix 1 provides a high level view of key pensions issues with more detail provided in the remaining appendices.

2. RECOMMENDATIONS

2.1. That the report is noted.

3. REASONS FOR DECISION

3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1. At the first meeting of the Pensions sub-committee in January 2015, a proposal for a Pension Fund Quarterly Update Pack was agreed. This report and associated appendices make up the pack for the quarter ended 31st December

2015. It is designed to provide sub-committee members with a high level view of key pensions issues in the scorecard (see Appendix 1) with more detailed information in the remaining appendices.

5. PROPOSAL AND ISSUES

5.1. Surrey County Council took over the administration from Capita on 1st September 2015 and there are no administration performance indicators available this quarter.

5.2. Appendix 2 provides information about the Fund's investments and performance. Alistair Sutherland from Deloitte will be attending the meeting to present this report.

5.3. Appendix 3 is the funding level update at 31st December 2015 prepared by the Fund Actuary, Graeme Muir of Barnett Waddingham. The next formal triennial valuation of the Fund will take place as at 31st March 2016.

5.4. The actual cashflow for the period October to December 2015 and the forecast up to March 2016 is shown in Appendix 4. An analysis of the differences between the actuals and the forecast for the quarter is also shown. No changes have been made to the forecast for the remainder of this financial year or the longer term forecast presented to the last meeting in November 2015.

5.5. The risk register has been reviewed by officers and is attached as Appendix 5. The rationale for the changes is set out on the first page of Appendix 5.

5.6. A summary of the voting undertaken by the investment managers running segregated equity portfolios forms Appendix 6.

5.7 The Government published a consultation proposing the pooling of LGPS assets in England and Wales into 6 funds of £25bn each on 25th November 2015. More detail about this, a copy of the consultation documents and the initial response is provided in the "Asset pooling and London CIV update" item elsewhere on this agenda.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. None.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. None.

11. IMPLICATIONS FOR BUSINESS

11.1 None.

12. RISK MANAGEMENT

12.1 The Pension Fund risk register is attached in Appendix 5.

13. PROCUREMENT IMPLICATIONS

13.1 None.

14. IT STRATEGY IMPLICATIONS

14.1 None.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.			

LIST OF APPENDICES:

Appendix 1: Scorecard at 31st December 2015
Appendix 2: Deloitte quarterly report for quarter ended 31st December 2015
Appendix 3: Barnett Waddingham quarterly report at 31st December 2015
Appendix 4: Cashflow monitoring
Appendix 5: Pension Fund Risk Register
Appendix 6: Pension Fund Voting Summary

Appendix 1: Scorecard at 31st December 2015

HAMMERSMITH AND FULHAM PENSION FUND QUARTERLY MONITORING

	Mar 15	Jun 15	Sept 15	Dec 15	Comment/ Report Ref if applicable
INVESTMENTS					
Value (£m)	865.0	856.0	829.3	844.4	Deloitte report Appendix 2
% return quarter	4.6%	-1.1%	-3.0%	2.5%	
% return 1 year	15.1%	11.6%	6.4%	3.0%	
LIABILITIES					
Value (£m)	995.4	1,021.0	1,010.1	1,011.3	Barnett Waddingham report Appendix 3
Deficit (£m)	126.4	136.2	156.7	174.4	
Funding Level	87%	87%	84%	83%	
MEMBERSHIP					
Active members	4,024	4,010	3,948	3,935	N/A
Deferred beneficiaries	5,957	5,962	5,944	5,906	
Pensioners	4,288	4,305	4,518	4,561	
Employers	33	33	35	35	
ADMINISTRATION					
Overall targets met by Capita excluding backlog	94.2%	95.0%	not available	not available	N/A
Overall targets met by Capita including backlog	69.4%	73.8%	not available	not available	
CASHFLOW					
Cash balance	£4.49m	£8.65m	£4.87m	£5.05m	Appendix 4
Variance from forecast	+£1.67m	+£1.46m	+£0.9m	+£0.2m	
RISK					
No. of new risks	3	0	2	0	Appendix 5
No. of ratings changed	2	3	1	0	
VOTING					
No. of resolutions voted on by fund managers	374	2,626	700	320	Appendix 6
LGPS REGULATIONS					
New consultations	None	None	None	One*	Appendix 7
New sets of regulations	None	None	None	None	

**See “Asset pooling and London CIV update” report elsewhere on this agenda*

Deloitte.

London Borough of Hammersmith & Fulham Pension Fund

Investment Performance Report to 31 December 2015 – Executive Summary

Deloitte Total Reward and Benefits Limited
February 2016

Contents

1 Market Background

Three and twelve months to 31 December 2015

The UK equity market showed some volatility over the 3 months to 31 December 2015 given the persistent uncertainty around the strength of the global economy and China in particular. Markets rallied in late December following the Fed's announcement to raise rates, ending the fourth quarter in positive territory (FTSE All Share Index: 4.0%).

Mid and small cap companies outperformed the largest UK firms over the fourth quarter, with the FTSE 250 and FTSE Small Cap indices returning 5.0% and 4.1% respectively. At the sector level, Technology was the strongest performer (10.9%), whilst the poorest performing sector was once again Basic Materials (-11.1%). This sector continues to be affected by falling commodity prices and concerns over an economic slowdown in China.

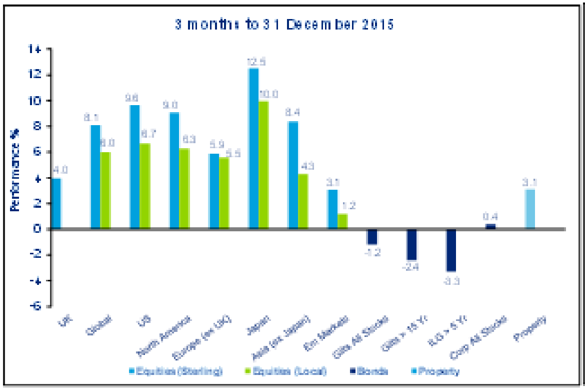
Global equity markets outperformed the UK in both local currency terms (6.0%) and sterling terms (8.1%), with the pattern of returns over the quarter broadly in line with that seen in the UK. Currency hedging was generally detrimental to sterling investors investing globally over the quarter, as sterling depreciated against the dollar and yen, and was broadly flat against the euro. At the regional level, Japanese equities offered the highest return of 12.5% in sterling terms and 10.0% in local currency terms. The emerging markets were the poorest performing region over the quarter, returning 3.1% in sterling terms and 1.2% in local currency terms.

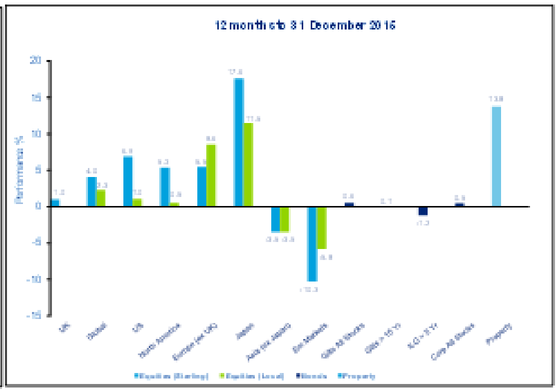
UK nominal gilts delivered negative returns over the fourth quarter as yields increased across all but the shortest maturities, with the All Stocks Gilt Index returning -1.2%. Real yields on UK index-linked gilts also increased over the period, with the Over 5 Year Index-linked Gilt Index returning -3.3%. Corporate bonds posted marginally positive returns over the quarter, with the iBoxx All Stocks Non Gilt Index returning 0.4%. Returns on corporate bonds were ahead of gilts as credit spreads narrowed.

Over the 12 months to 31 December 2015, the FTSE All Share Index returned 1.0%, although returns were volatile over the year, and varied across sectors. Technology delivered the highest return at 16.8%, whilst the Basic Materials and Oil & Gas sectors suffered dramatically over 2015 in an environment of falling commodity prices, returning -42.1% and -20.7% respectively. Global equity markets outperformed the UK, with the FTSE All World Index returning 4.0% and 2.3% in sterling and local currency terms respectively.

UK nominal gilts delivered marginally positive returns over 2015. Positive returns can be attributed to coupon payments, as gilt yields rose across all maturities (and therefore gilt prices fell). The All Stocks Gilt Index returned 0.6% over the 12 month period and the Over 15 Year Gilt Index returned just 0.1%. There were more significant increases in real yields over the year, causing the Over 5 year Index-linked Gilt Index to return -1.2%. Corporate bond returns were marginally positive, with the iBoxx All Stocks Non Gilt Index returning 0.5% over the 12 months to 31 December 2015. This was again due to the effect of coupon payments, as gilt yields increased and credit spreads widened over the year.

The UK property market performed strongly in 2015, returning 3.1% over the quarter and 13.8% over the year to 31 December 2015.





2 Performance Overview

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Breakdown of Fund Performance by Manager as at 31 December 2015 Fund	Manager	3 month	1 year	2 year p.a.	3 year p.a.	5 year p.a.
Equity Mandate						
	Majedie	1.0	-0.2	2.6	11.3	10.3
FTSE All Share		3.9	0.9	1.1	7.3	6.0
Difference		-2.9	-1.1	1.6	4.0	4.3
	Global Equity Mandate**	9.3	n/a	n/a	n/a	n/a
FTSE All World		9.3	n/a	n/a	n/a	n/a
Difference		0.0	n/a	n/a	n/a	n/a
Dynamic Asset Allocation Mandates						
	Ruffer	1.1	2.1	3.7	6.2	4.5
3 Month Sterling LIBOR + 4% p.a		1.1	4.6	4.6	4.6	4.7
Difference		0.0	-2.5	-0.9	1.6	-0.2
	Insight	0.1	n/a	n/a	n/a	n/a
3 Month Sterling LIBOR + 2% p.a		0.6	n/a	n/a	n/a	n/a
Difference		-0.5	n/a	n/a	n/a	n/a
Private Equity						
	Invesco	-2.9	18.8	26.7	19.5	17.8
	Unicapital	4.1	5.6	5.6	5.7	7.4
Secure Income						
	Partners Group MAC	0.9	n/a	n/a	n/a	n/a
3 Month Sterling LIBOR + 4% p.a		1.1	n/a	n/a	n/a	n/a
Difference		-0.2	n/a	n/a	n/a	n/a
	Oak Hill Advisors	-2.6	n/a	n/a	n/a	n/a
3 Month Sterling LIBOR + 4% p.a		1.1	n/a	n/a	n/a	n/a
Difference		-3.7	n/a	n/a	n/a	n/a
	Partners Group Direct Infrastructure	-0.2	n/a	n/a	n/a	n/a
3 Month Sterling LIBOR + 8% p.a		2.1	n/a	n/a	n/a	n/a
Difference		-2.3	n/a	n/a	n/a	n/a
Inflation Protection						
	M&G	-2.5	n/a	n/a	n/a	n/a
RPI + 2.5% p.a.		1.0	n/a	n/a	n/a	n/a
Difference		-3.5	n/a	n/a	n/a	n/a
	Standard Life	1.3	n/a	n/a	n/a	n/a
FT British Government All Stocks Index +2.0%		-0.7	n/a	n/a	n/a	n/a
Difference		2.0	n/a	n/a	n/a	n/a
Total Fund		2.4	2.5	6.8	9.6	8.1
*Benchmark**		3.4	3.6	5.7	7.5	7.2
Difference		-1.0	-1.1	1.1	2.1	0.9

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte. Differences may not tie due to rounding.
(*) The Total Assets benchmark is the weighted average performance of the target asset allocation.
(**) The performance of the Global Equity mandate has been calculated using the starting MFS valuation and ending LGIM valuation, removing cashflows. For this quarter's calculations, we have assumed the benchmark is the same as the mandate return.

3 Total Fund

Investment Performance to 31 December 2015

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Total Fund – Gross of fees	2.5	3.0	7.2	10.0	8.6
Net of fees[(1)]	2.4	2.5	6.8	9.6	8.1
Benchmark[(2)]	3.4	3.6	5.7	7.5	7.2
Net performance relative to fixed benchmark	-1.0	-1.1	1.1	2.1	0.9

Source: Northern Trust. Relative performance may not sum due to rounding.

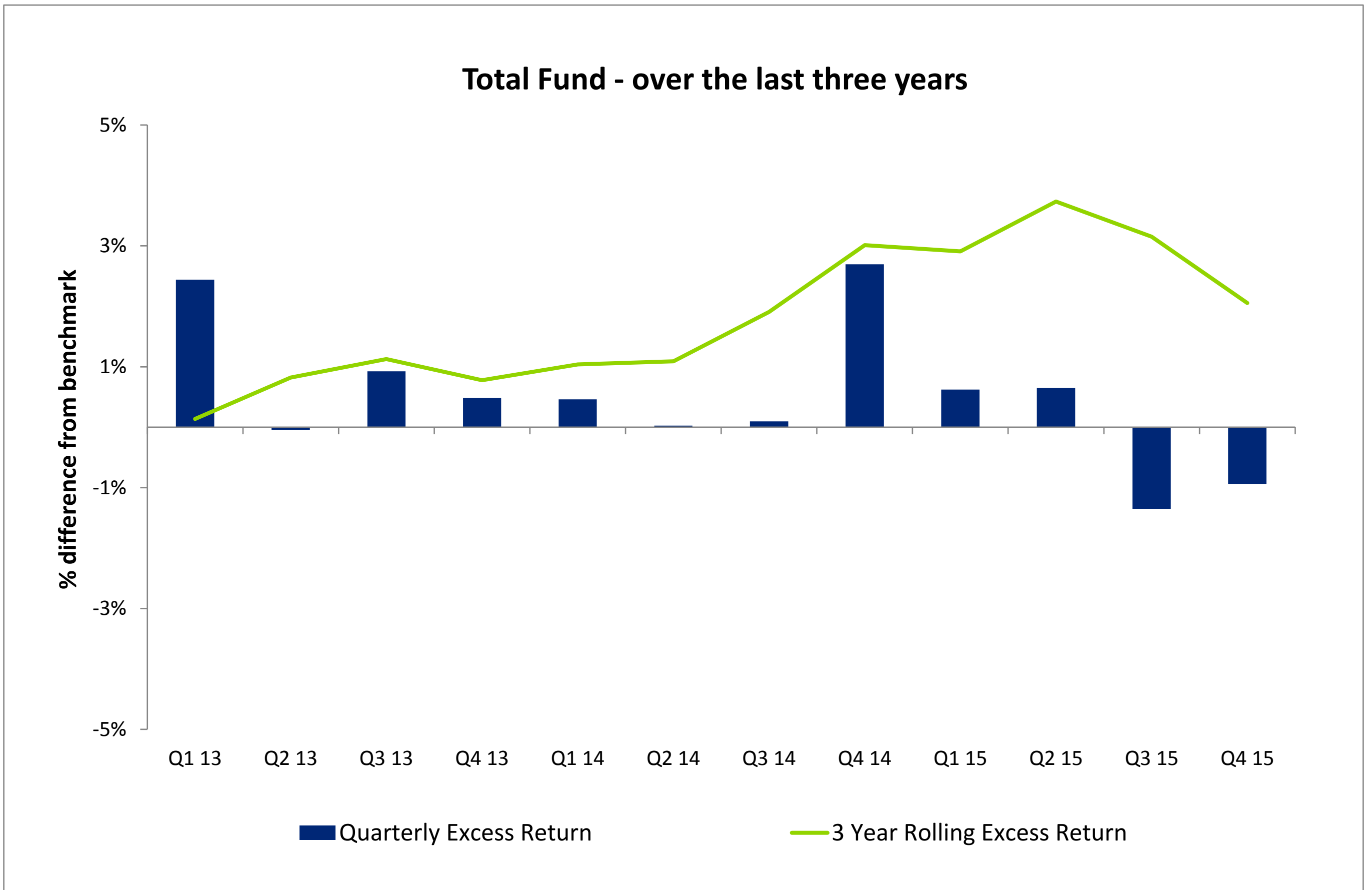
(1) Estimated by Deloitte

(2) Average weighted benchmark

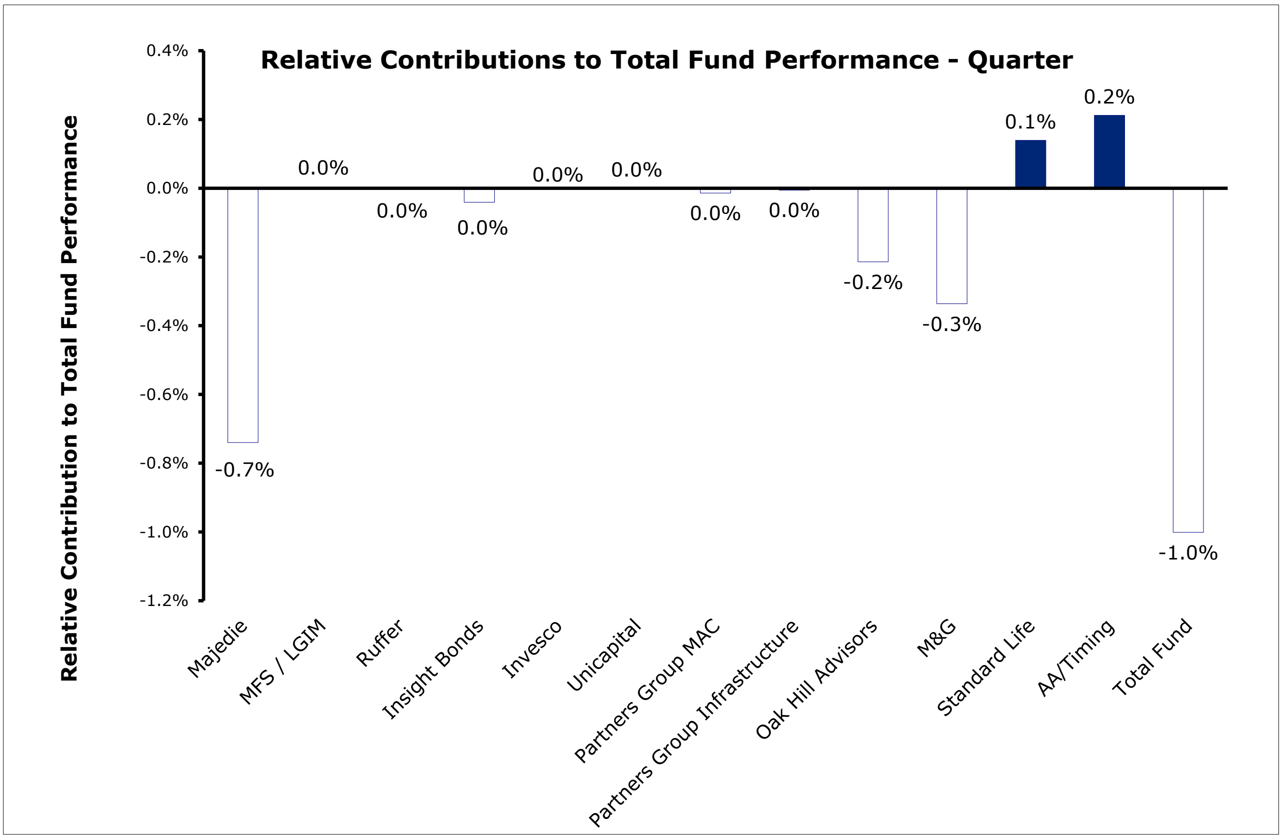
Over the quarter, the Total Fund underperformed its fixed weighted benchmark by -1.0% on a net of fees basis.

This has taken the Fund's one year performance to 2.5% net of fees, and is below its benchmark by 1.1%. The Fund remains ahead of benchmark over the three and five year periods by 2.1% p.a. and 0.9% p.a.

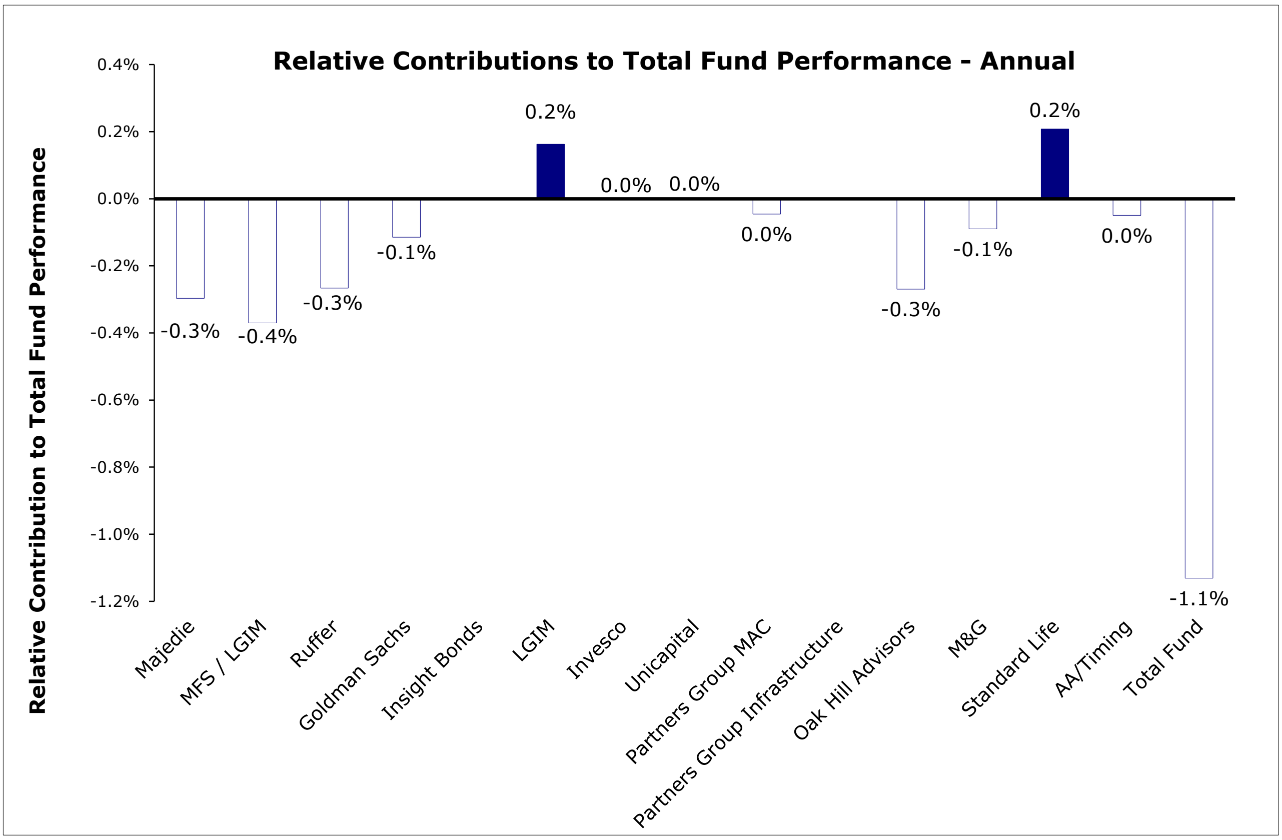
The chart below compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 31 December 2015, highlighting the strong relative returns over the last couple of years – much of which can be attributed to the outperformance achieved by Majedie. Performance over the past 12 months has dampened the three year outperformance figure slightly.



Attribution of Net Performance to 31 December 2015



On a net performance basis, the Fund underperformed the composite benchmark by 1.0% over the fourth quarter of 2015, with negative contributions from Majedie, M&G and OakHill. The Fund's overweight position to equities was a positive for performance versus the fixed weight benchmark.



Over the year the Fund underperformed the composite benchmark by 1.1%, with Majedie, MFS and Ruffer underperforming their respective benchmarks.

Asset Allocation

The table below shows the assets held by manager as at 31 December 2015 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation 30 Sep 2015 (£m)	31 Dec 2015 (£m)	30 Sep 2015 (%)	31 Dec 2015 (%)	Benchmark Allocation (%)
Majedie	UK Equity (Active)	212.6	214.9	25.6	25.5	22.5
MFS	Overseas Equity (Active)	202.4	0.0	24.4	0.0	0.0
LGIM	Global Equity (passive)	0.0	221.2*	0.0	26.2	22.5
	Total Equity	**415.0**	**436.1**	**50.0**	**51.6**	**45.0**
Ruffer	Absolute Return	88.4	89.5	10.7	10.6	10.0
Insight	Blonds Plus	0.0	64.9	0.0	7.7	10.0
	Total Dynamic Asset Allocation	**88.4**	**154.5**	**10.7**	**18.3**	**20.0**
Invesco	Private Equity	6.2	5.8	0.7	0.7	0.0
Unicapital	Private Equity	3.8	3.7	0.5	0.4	0.0
	Total Private Equity	**10.0**	**9.5**	**1.2**	**1.1**	**0.0**
Partners Group	Multi Asset Credit	51.3	51.9	6.2	6.1	7.5
Oak Hill Advisors	Diversified Credit Strategy	47.9	46.8	5.8	5.5	7.5
Partners Group	Direct Infrastructure	2.0	2.0	0.2	0.2	5.0
	Secure Income	**101.3**	**100.7**	**12.2**	**11.9**	**20.0**
M&G	Inflation Opportunities	78.9	77.0	9.5	9.1	10.0
Standard Life	Long Lease Property	42.8	43.4	5.2	5.1	5.0
	Total Inflation Protection	**121.7**	**120.4**	**14.7**	**14.3**	**15.0**
LGIM	Liquidity Fund	28.2	23.2	3.4	2.7	0.0
	Total	**829.3**	**844.4**	**100.0**	**100.0**	**100.0**

Source: Northern Trust (Custodian) and have not been independently verified

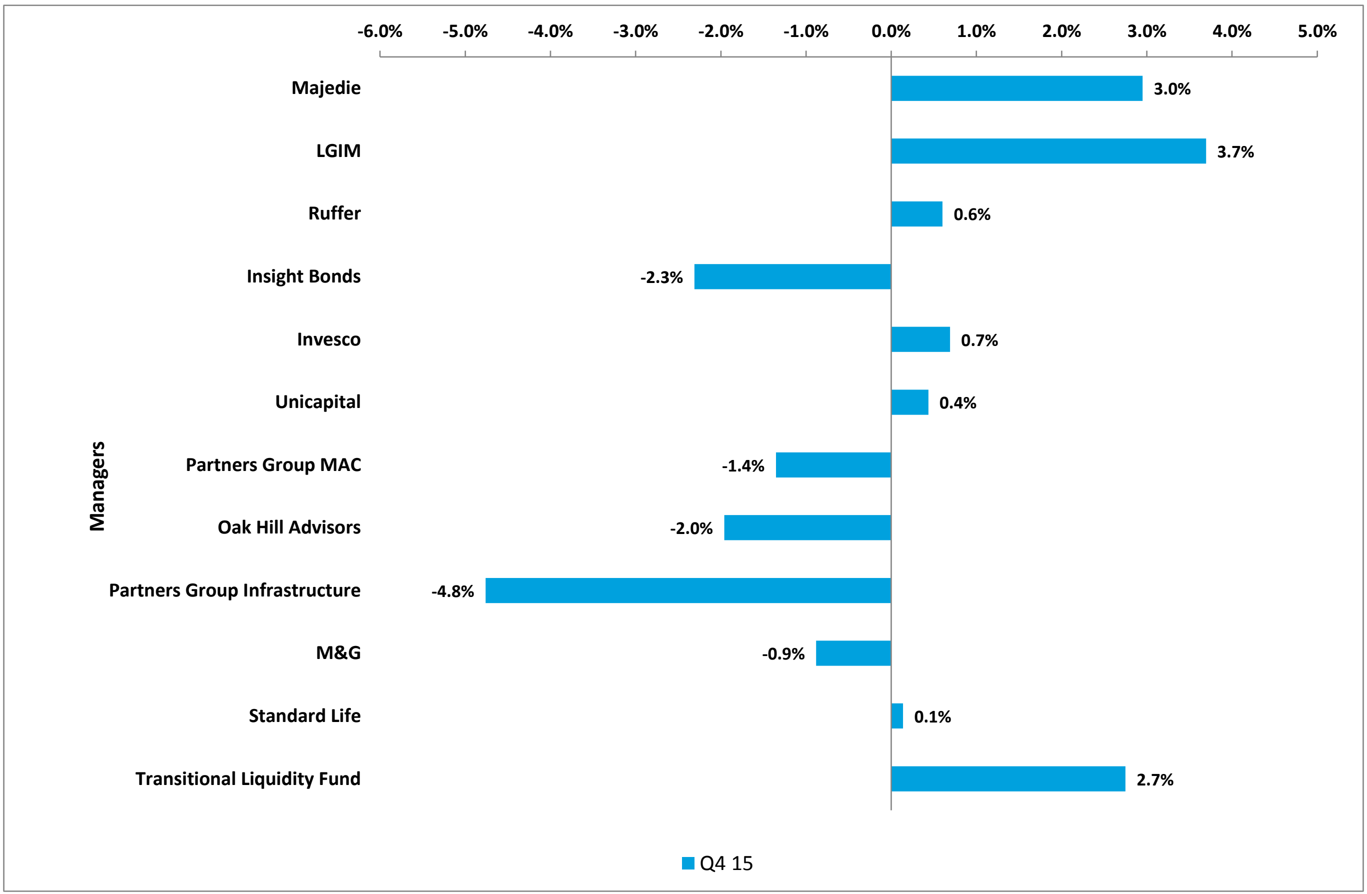
Figures may not sum to total due to rounding

* This figure includes an allocation being held as cash which will be invested in emerging markets following the transfer to the CIV.

At the end of the third quarter, the Fund made an investment to Insight's Bond Plus fund using the proceeds from the Goldman Sachs disinvestment. During the fourth quarter, the mandate with MFS was transitioned to a global passive mandate with LGIM. A Post Transition Report has been provided with the quarterly pack which details this transition and outlines all costs associated with the transfer.

For the purposes of performance reporting, we have calculated the quarterly performance of the entire global equity mandate (MFS and LGIM) using the change in valuation over the quarter. We have used the same figure for the benchmark performance therefore assuming no out or under performance for this mandate over the quarter.

The asset allocation chart below shows the relative underweight and overweight positions of the Fund against the revised allocations proposed in the strategy review.



- The equity portfolio remains overweight (+6.6%). The Committee is discussing reducing the equity risk within the Fund and investing the proceeds in a more diversified solution.
- Partners Group will gradually draw down funds to the Infrastructure product as assets are purchased. These calls will be initially funded from the Liquidity Fund.

Yield analysis as at 31 December 2015

The following table shows the running yield on the Fund's investments.

Manager	Asset Class	Yield as at 31 December 2015
Majedie	UK Equity	3.29%
LGIM	Global Equity	n/a*
Ruffer	Dynamic Asset Allocation	1.4%
Insight Bonds	Dynamic Asset Allocation	0.84%
Partners Group MAC	Secure Income	6.30%
Oak Hill Advisors	Secure Income	6.10%
M&G	Inflation Protection	1.38%
Standard Life	Inflation Protection	4.49%
	Total	**2.16%**

* The yield on the FTSE World Index at the end of December was 2.7%

4 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
LGIM	Global Equities	Major deviation from the benchmark return Significant loss of assets under management	1
Ruffer	Absolute Return	Departure of either of the co-portfolio managers from the business Any significant change in ownership structure	1
Insight	Bonds Plus	A significant increase or decrease to the assets under management with no set limits	
Partners Group	Multi Asset Credit	Significant changes to the investment team responsible for the Fund *Note the mandate is subject to a 7 year lock-up period	1
	Direct Infrastructure	Significant changes to the investment team responsible for the Fund. *Note the mandate is subject to a 10 year lock-up period	1
Oak Hill Partners	Diversified Credit Strategy	Significant changes to the investment team responsible for the Fund. Significant changes to the liquidity of underlying holdings within the Fund.	1
M&G	Inflation Opportunities	If the Fund's portfolio manager Gary Parker was to leave the business or cease to be actively involved in the Fund, this would trigger a review of the Fund. Failure to find suitable investments within the initial two year funding period.	1
Standard Life	Long Lease Property	Richard Marshall leaving the business or ceasing to be actively involved in the Fund without having gone through an appropriate hand-over. A build up within the Fund of holdings with remaining lease lengths around 10 years.	1

Majedie

Business

Majedie continues to see steady growth in the Global Equity and Focus Funds which have AUM of $52m and $26m respectively as at 31 December 2015.

Majedie has been investing internally in its client management system and a "Hive" project to encourage closer ties within the investment teams.

Majedie is having discussions with the London CIV regarding its products, specifically the UK Equity Strategy, which 3 of the London Boroughs invest in. Majedie is open to making the Fund available through the CIV, assuming it can agree terms which will benefit the current London LGPS investors although negotiations are still ongoing at this stage.

Personnel

There were 2 new joiners over the quarter (James Dudgeon in the US Equity team, and Emily Barnard in the UK Income team) although the team managing the UK Equity Fund remains unchanged.

Deloitte view – We continue to rate Majedie positively for its UK equity capabilities.

LGIM

Business

As at 30 September 2015, Legal & General Investment Management ("Legal & General") had total assets under management of c. £717bn (including derivative overlays and advisory assets). As at 30 September, the AUM on equity amounted to c. £296bn.

Personnel

There were no personnel changes over the fourth quarter of 2015. The transitioning of Ali Toutounchi's responsibilities was completed during the quarter.

Deloitte View: We continue to rate Legal & General positively for its passive capabilities.

Ruffer

Business

Ruffer is engaged in discussions with the London CIV and has expressed a desire to offer its product through the platform.

Personnel

There were no changes to the team or process over the quarter.

Deloitte view – The Ruffer product is distinctive within the universe of diversified growth managers with the manager willing to take contrarian, long term positions drawing where necessary on the expertise of external funds.

Insight

Business

Insight continued to see a strong inflow of assets over the quarter. Assets under management was £407bn as at 31 December 2015. Assets under management of the Bonds Plus Fund stood at £4.2bn as at 31 December 2015.

Personnel

There were no material changes to the Fixed Income Group over the fourth quarter. Tamara Burnell joined as a credit analyst and will work particularly on emerging market financials. The integration of the Cutwater team in the US appears to have progressed smoothly, giving Insight further capacity across a number of credit focused strategies.

Deloitte view – We continue to rate Insight positively across its Fixed Income capabilities.

Partners Group

Mutli Asset Credit

The net asset value of the MAC Fund was £262.6m as at 31 December 2015. The Fund's commitments were fully invested within the 12 month target period and the Fund is now in its 2 year reinvestment period which means Partners Group may replace assets if it finds more attractive opportunities or if an existing asset is refinanced or repaid early.

The final close for the successor program, the Multi-Asset Credit 2015, is targeted for April 2016 at a target Fund size of £300m with a number of potential investors at various stages of legal due diligence.

Partners Group intends to launch the Multi-Asset Credit 2016 Fund in the third quarter of 2016 and already has one investor to seed the product with an investment of £100m. The target Fund size will be £300m.

Direct Infrastructure

The Direct Infrastructure 2015 product held its first close in August and has already called capital to fund two investments. Of the Fund's €55m commitment, €2.2m has been drawn. Partners Group continues to see an attractive pipeline of potential investments for this product.

Personnel

There were no changes to the teams managing the Multi Asset Credit Fund or PG Direct Infrastructure Fund during the fourth quarter of 2015. However, Partners Group did hire 8 junior members to support the growing level of business.

Deloitte View - We continue to rate Partners Group for its private market and infrastructure capabilities.

Oak Hill Advisors – Diversified Credit Strategy

Business

The total capital which Oak Hill Advisors ("OHA") manages is approximately $27.3bn. Total AuM in the DCS Fund was $3.2bn as at 31 December 2015, with $2.1bn in the pooled vehicle.

Personnel

There were no changes to the team managing the strategy over the quarter and the process remains unchanged.

Deloitte view – We recognise that performance has not been satisfactory since inception (Q2 2015) however having had a review of the product with OakHill we are comfortable that much of this negative performance has been down to mark to market moves and are comfortable with the level of risk being run within the strategy.

M&G – Inflation Opportunities Fund

Business

Total AuM across the five sub-funds of Inflation Opportunities is £1.6bn. The Inflation Opportunities Fund V is now fully drawn-down and no further clients are waiting to come into the fund. The total AuM in the fund is £433m.

Personnel

There were no changes to the team managing the strategy over the quarter and the process remains unchanged.

Deloitte view – We continue to rate M&G for its investment capabilities.

Standard Life – Long Lease Property

Business

The Fund's assets under management increased slightly to £1.61bn over the fourth quarter following positive performance, with no significant inflows or outflows over the quarter.

In relation to our previous concerns about the Fund's supermarket exposure, there was an arbitration on rent for a Sainsburys (Southport) asset. Despite expectations that rent would increase by 13%, the arbitrators imposed no increase in rent, bringing the value of the individual asset down by c. 10%. While the supermarket sector as a whole contributed negatively over the fourth quarter there were positive contributions from some of the Fund's Tesco and Aldi holdings

Personnel

There were no changes to the team over the quarter with Richard Marshall, the lead portfolio manager, having now relocated to London.

Deloitte View: We rate SLI positively for its long lease property capabilities and continue to monitor the supermarket exposure within the Long Lease Property Fund

5 Majedie – UK Equity

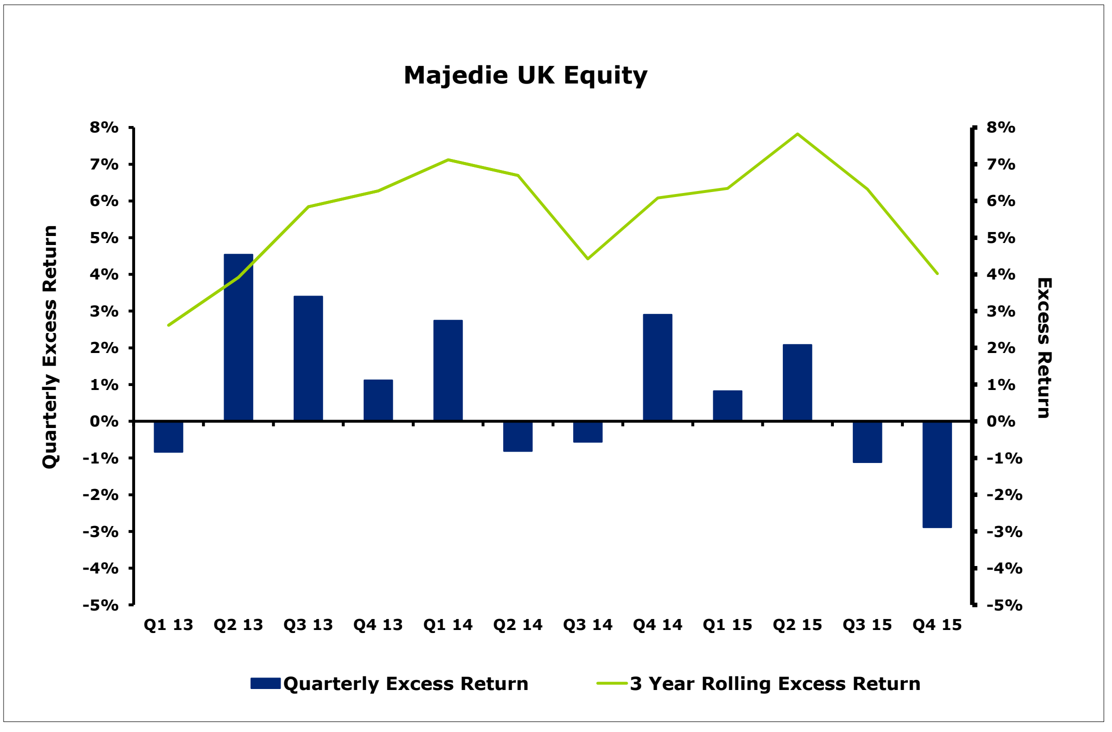
Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager's remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period. The investment with Majedie comprises a combination of the UK Equity Fund (no more than 30%), the UK Focus Fund and a holding in Majedie's long/short equity fund, Tortoise (no more than 10%).

UK equity – Investment Performance to 31 December 2015

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)(1)	Three Years (% p.a.)	Five Years (% p.a.)
Majedie – Gross of fees	1.1	0.2	3.0	11.7	10.7
Net of fees(1)	1.0	-0.2	2.6	11.3	10.3
Benchmark	3.9	0.9	1.1	7.3	6.0
Target	4.4	2.9	3.1	9.3	8.0
Net performance relative to Benchmark	-2.9	-1.1	1.6	4.0	4.3

Source: Northern Trust

(1) Estimated by Deloitte



The UK Equity fund returned 1.4% over the quarter, underperforming the FTSE All Share by 2.6%. The UK Focus Fund, which comprises Majedie's highest conviction ideas also underperformed over the quarter, returning 0.4%. The Tortoise Fund also contributed to poor performance, returning -3.1% over the quarter. Majedie remains ahead of target over the three and five year periods by 4.0% p.a. and 4.3% p.a. respectively.

Majedie has suffered from stock specific calls in the supermarket and banking sectors. However the manager remains confident in the selections and attributes short term underperformance to market timing. Majedie still has high conviction in all of its positions and, in many cases, has used recent market falls to increase exposure to certain stocks.

6 Legal and General – Global Equity

Legal and General Investment Manager ("LGIM") was appointed to manage a global equity portfolio with the objective of replicating the performance of the FTSE All World Index benchmark. The manager is remunerated on a tiered fixed fee based on the value of assets.

Global Equity – Investment Performance to 31 December 2015

	Valuation 31 Dec 2015 (£m)	Actual Allocation (%)	Benchmark Allocation (%)[2]
UK Equity Index	15.3	6.9	7.2
World (ex UK) Dev Equity Index	187.7	84.9	84.3
Sterling Liquidity Fund[1]	18.2	8.2	8.5
Total	**221.2**	**100.0**	**100.0**

Source: Legal and General.

(1) The Committee have decided to hold the Emerging Market allocation in cash until the launch of the London CIV to save on transaction costs.

(2) Benchmark positions are subject to changes to the FTSE All World Index.

Over the quarter, all assets held within the MFS mandate were transferred to a Global Equity mandate with LGIM and invested into pooled funds which will be available through the London Council's Common Investment Vehicle (CIV) when launched. The mandate's previous allocation to emerging markets has been retained as cash pending the transfer to the CIV, saving on transaction and transfer costs.

We have produced a Post Transition Report which details the transition from MFS and outlines all costs associated with it.

As the transition took place over two dealing dates throughout the quarter, we are unable to show quarterly performance. Based on the MFS value at the start of the quarter and the LGIM value at the end of the quarter (allowing for cashflows), we estimate the portfolio has returned 9.3% over the quarter. Due to the benchmark change over the quarter, we have assumed the benchmark figure to be equal to the portfolio performance.

7 Ruffer – Absolute Return

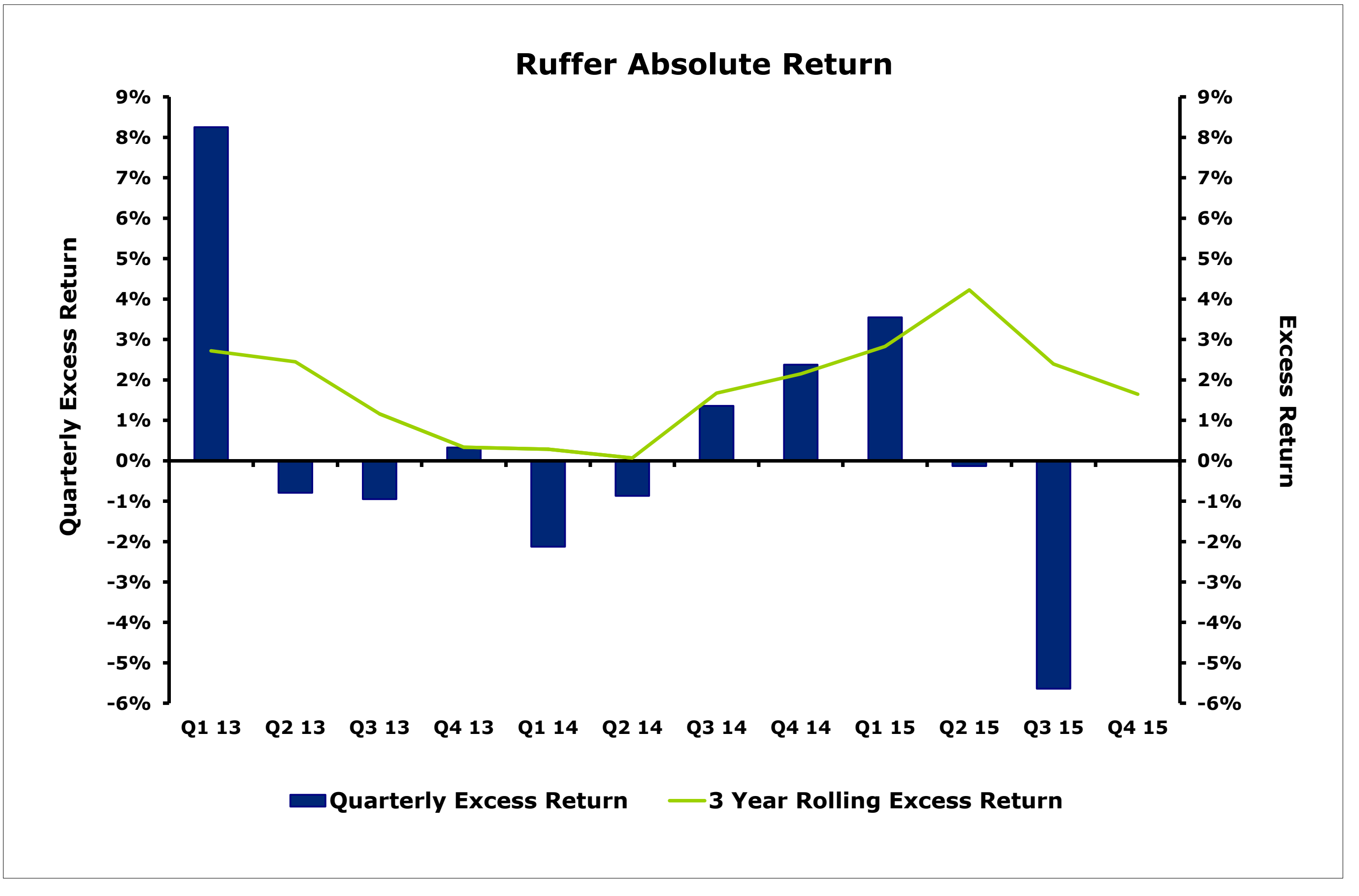
Ruffer was appointed to manage an absolute return mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

Dynamic Asset Allocation - Investment Performance to 31 December 2015

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)[1]	Three Years (% p.a.)	Five Years (% p.a.)
Ruffer - Gross of fees	1.3	2.9	4.5	7.0	5.3
Net of fees[1]	1.1	2.1	3.7	6.2	4.5
Benchmark / Target	1.1	4.6	4.6	4.6	4.7
Net performance relative to Benchmark	0.0	-2.5	-0.9	1.6	-0.2

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



Ruffer performed in line with its target over the quarter, net of fees. The fund has underperformed the target over the one year period by 2.5%, largely due to poor performance in Q3 2015, however is ahead of target over the three year period by 1.6% p.a.

Over the quarter, Ruffer benefited from its Japanese and Western equity allocations. The Japanese stock market rebounded strongly after a poor third quarter. The Fund's Index Linked Bond exposure gave back some of its gains as yields rose over the fourth quarter.

8 Insight – Bonds Plus

Insight was appointed to manage an active bond portfolio with an aim of outperforming the 3 Month Sterling LIBOR by 2% over a rolling three year period. The fees are based on the value of assets invested in the fund.

Absolute Return - Investment Performance to 31 December 2015

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)	Five Years (% p.a.)
Insight – Gross of fees	0.2	*1.8*	*2.1*	*3.1*
Net of fees[(1)]	0.1	*1.3*	*1.6*	*2.6*
Target	0.6	*2.6*	*2.5*	*2.7*
Net Performance relative to Benchmark	-0.5	*-1.3*	*-0.9*	*-0.1*

Source: Northern Trust. Relative performance may not tie due to rounding.

Note: Historic performance out with 'Last Quarter' shown for illustrative purposes only. This was sourced from Insight and are gross of fees. The Fund has not been invested for longer periods.

(1) Estimated by Deloitte

Insight underperformed its target over the quarter to 31 December 2015 by 0.5%, net of fees. While the Fund has only been invested over the fourth quarter of 2015, the Bonds Plus fund has returned 1.8% and 2.1% p.a. over the year and three years to 31 December 2015, gross of fees.

The largest contributor to absolute performance was the fund's market allocation decision. Insight maintained an exposure to US breakeven inflation, which was a positive contributor as US inflation rose modestly. Investment Grade Credit was also positive as the fund benefited from an overweight position in corporate credit risk as credit spreads narrowed. The fund's duration position was a small negative contributor over the quarter, detracting <5bps.

9 Partners Group – Multi Asset Credit

Partners Group was appointed to manage a multi asset credit mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has an annual management fee and performance fee.

Multi Asset Credit - Investment Performance to 31 December 2015

The Fund underperformed its benchmark by 0.2% over the quarter, net of fees, returning 0.9% in absolute terms.

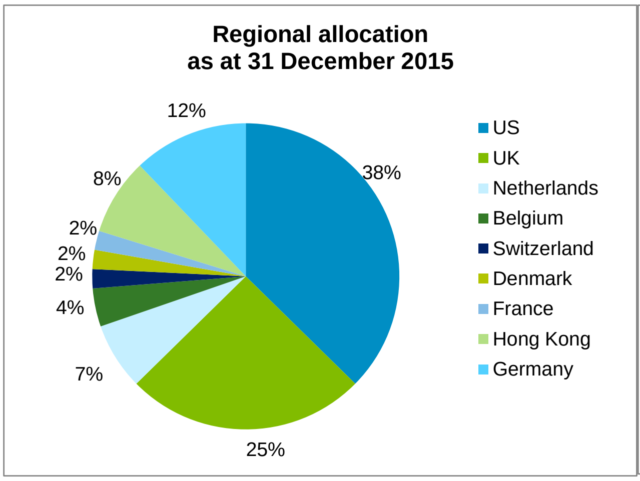
Asset Allocation

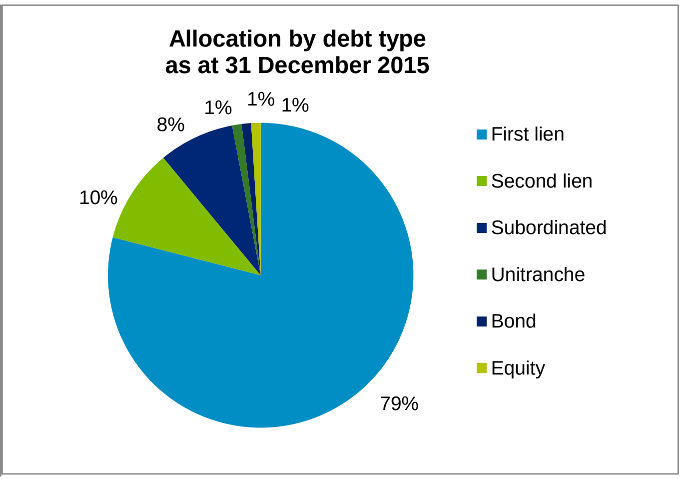
The table below shows details of the Fund's five largest holdings based on net asset value as at 31 December 2015.

Investment	Description	Type of Debt	Tranche	Maturity Date	Target IRR (%)	NAV (£m)	% of NAV
Nob Hill Square	Retail shopping centre in Hong Kong.	Real Estate	First Lien	2 Apr 2020	5.2	15.3	5.7
Cote Bistro	UK restaurant chain offering value for money French cuisine.	Corporate	First Lien	14 July 2022	1.9	12.5	4.7
Motor Fuel Group	Independent fuel stations operator in the UK.	Corporate	First Lien	15 July 2022	3.0	12.5	4.7
Advanced Computer Software	UK software developer.	Corporate	First Lien	20 Mar 2022	7.8	12.5	4.7
AS Adventure	Large European specialist multi-brand outdoor retail group.	Corporate	First Lien	28 Apr 2022	6.4	11.8	4.4

Source: Partners Group

There was no change to the investments within the portfolio over the fourth quarter of 2015. Activity has stabilised now that Partners Group has successfully invested all of the Fund's commitments. The charts below show the current asset allocation of the fund by region and debt type. As expected, the majority of the Fund is invested in senior secured debt.





10 Oak Hill Advisors – Diversified Credit Strategies Fund

Oak Hill Advisors was appointed to manage a multi asset credit mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has an annual management fee and performance fee.

Multi Asset Credit - Investment Performance to 31 December 2015

	Last Quarter (%)	Year to date (%)	2014 (%)	2013 (%)	Since Inception p.a. (%)
OHA – Gross of fees	-2.4	*-2.1*	*3.7*	*8.7*	*5.2*
Net of fees[(1)]	-2.6	*-2.7*	*2.6*	*7.7*	*4.2*
Target	1.1	*4.6*	*4.6*	*4.6*	*4.6*
Net Performance relative to Benchmark	-3.7	*-7.3*	*-0.9*	*4.1*	*-0.4*

Source: Northern Trust and Oak Hill Advisors. Relative performance may not tie due to rounding.

Note: Historic performance out with 'Last Quarter' shown for illustrative purposes only. This was sourced from Oak Hill. The Fund has not been invested for longer periods.

Over the quarter the DCS fund delivered -2.6% net of fees, underperforming its target by 3.7%. While the strategy has struggled over the past 12 months, performance has been better over the longer term. More than half of the underperformance over the quarter can be attributed to the strategy's CLO positions (c. 16% of the portfolio). The majority of these positions have suffered negative mark to market movements which Oak Hill expects to regain if the positions are held to maturity.

The Fund's exposure to the energy sector continues to decrease, currently at c. 5%. Cash in the fund remains at high levels to allow Oak Hill to move quickly as and when favourable opportunities arise.

11 Partners Group – Direct Infrastructure

Partners Group was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

Direct Infrastructure - Investment Performance to 31 December 2015

As at 31 December 2015, Partners Group Direct Infrastructure 2015 was early in its investment phase and the portfolio comprised two seed investments. The program continued to deploy capital over the quarter to fund the build-out of its assets, Japan Solar General Partner and Fermaca. During the fourth quarter, Japan Solar completed the construction of a 17.9MW solar plant, which has a power purchase agreement with Kansai Electric Power Company. As at the end of December 2015, Japan Solar's platform comprised 21 solar projects with total power capacity of about 400MW, including three operational solar assets totalling 23.8MW. In the same period, the construction of Fermaca's two projects, the El Encino La Laguna and Roadrunner pipelines, continued to progress according to plan.

Information on the two investments in the product is given below.

Fermaca

Fermaca is a leading gas infrastructure operator, which develops, constructs, owns and operates pipelines and other related energy assets in Mexico. Fermaca's customers include Mexico's state-owned electric utility and other large natural energy companies and the bulk of its capacity is contracted under long-term agreements, providing the business with stable and predictable cash flows. The company currently owns two operating natural gas pipelines, including Tarahumara pipeline (TP), which is strategically located between the US-Mexico border and northern Mexico. Since Partners Group's investment in Fermaca, the company has also secured the rights to two additional project; the El Encino – La Laguna (EELL) and Roadrunner (RR) pipeline. Both pipelines will connect to TP and create an integrated gas transportation system upon completion. This will allow Fermaca to further consolidate its market-leading position in transporting natural gas from the US to the northern and central regions of Mexico.

Japan Solar General Partner

Japan Solar General Partner is a Japanese solar platform that funds the construction and operation of utility-scale solar plants across the country with its partner, Nippon Renewable Energy, one of the largest independent solar utility businesses in Japan. Japan Solar's projects benefit from long-term power purchase agreements with feed-in tariffs that were introduced by the Japanese government to encourage investment in the renewable energy sector. As of 20 June 2015, Japan Solar's platform compromised 21 secured projects with total power-generation capacity of about 400MW, among which two are operational.

12 M&G – Inflation Opportunities

M&G was appointed to manage an inflation opportunities mandate with the aim of outperforming the RPI benchmark by 2.5% p.a. The manager has an annual management fee which is calculated based on the underlying assets.

Investment Performance to 31 December 2015

Over the fourth quarter of 2015, the fund returned -0.1% net of fees, underperforming the target by -1.1%.

At the end of September the fund comprised of 61% ILG, 31% long lease property, 4% income strips and 2% ground rents (as well as 2.6% cash). Over the quarter, the fund's £20.4m commitment to long lease property was drawndown, bringing the total allocation up to the expected medium term level. The fund has also made a commitment of £65m to Income Strips via the Secured Lease Income Fund (internal M&G fund) with c. £16.5m of this being drawn over the quarter. Once the full commitment is drawn, the fund will have c. 15% exposure to income strips. The fund also made an investment to ground rents over the quarter, taking the allocation to 1.7%.

The Fund has a maximum of 2 years to source and invest in suitable long term assets which provide sufficient risk, return and diversification characteristics. M&G is seeing certain assets being purchased at inflated prices driven by investors' needs to get 'money into the ground' quickly. M&G remains true to the fund's philosophy of sourcing the right assets at the right time. M&G's medium term expected asset allocation views has not changed. IOF V is at a similar stage, in terms of assets purchased, as the previous pooled fund was at this stage of its lifetime.

The management fees charged by the fund are dependent on the underlying assets. Therefore while M&G is sourcing assets and has the majority invested in ILG's, clients are charged based on the assets currently in the portfolio and not based on a medium term expected portfolio. The current weighted average management fee is 32bps. Once the portfolio is fully invested we would expect to see this move towards 37bps.

13 Standard Life Investments – Long Lease Property

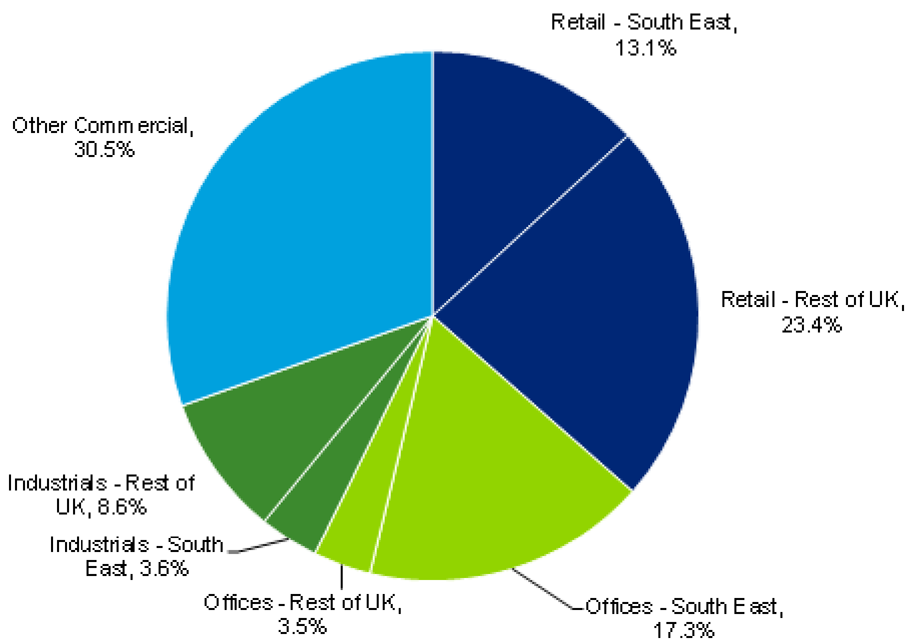
Standard Life Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

Long Lease Property - Investment Performance to 31 December 2015

Over the quarter the strategy returned 1.3% net of fees, outperforming the benchmark of the FTSE Gilt All Stocks Index +2% p.a. by 2.0%. The fund continues to lag the wider property market which returned 3.1% over the fourth quarter with high quality secondary assets performing well – in particular South East Offices.

Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 31 December 2015 is shown in the graph below.



When compared to an IPD benchmark, the Fund remains underweight the office sector (20.8% compared to 35.2%) and the industrial sector (12.2% compared to 19.6%) at the end of the fourth quarter. The Fund is also slightly underweight the retail sector (36.5% compared to 38.6%) which is dominated by supermarkets and contains no shopping centres or retail warehouses which form a significant part of the IPD universe (c. 25%).

The table below shows details of the top ten tenants in the Fund measured by percentage of net rental income.

Tenant	Property/Location	Total Rent £m p.a.	% Net Income
Tesco Stores Limited	Various	7.8	10.8
Premier Inn Limited	Fountainbridge	5.1	7.0
Sainsbury's Supermarkets	Various	4.9	6.7
Asda Stores Limited	Various	4.5	6.2
University of Salford	Peel Park Campus	3.6	5.0
Marstons PLC	Various	3.6	5.0
Save the Children Fund	1 St Johns Lane, London	3.6	5.0
WM Morrisons Supermarkets	Various	3.5	4.8
Glasgow City Council	Various	3.1	4.3
Travis Perkins (Properties)	Various	3.0	4.1
Total		**42.7**	**59.0**

The top 10 tenants contribute 59.0% of the total net income into the Fund. Supermarkets continue to dominate the Fund, with Tesco, Sainsbury's, Asda and Morrison's contributing 28.5% to the Fund's total net rental income.

The Fund's average unexpired lease term has fell over the quarter from 26.2 years to 25.9 years.

The proportion of the Fund invested in assets with fixed, part-fixed, CPI or RPI-linked rental increases remained broadly unchanged over the quarter at 90.3%.

Sales and Purchases

A £20.6m Z Hotel in Shoreditch, London was purchased over the fourth quarter with the 34 year lease having RPI(2,5) linked annual rent reviews, representing an initial yield of 3.75%. Despite this development not having an investment grade covenant, SLI viewed it as an attractive asset for the Fund given the developments within the Shoreditch area, as well as the property's vacant possession value being 60% higher than the agreed purchase price.

The development funding of the VW showroom was completed in January 2016, on a 25 year lease. Although VW suffered high profile negative press over the emissions scandal, SLI believes the strength of VW's balance sheet will be strong enough to withstand any subsequent fines without adversely impacting its ability to make lease payments.

Appendix 1 – Fund and Manager Benchmarks

The table in this Appendix details the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 31 December 1999.

Manager	Asset Class	Allocation	Benchmark	Inception Date
Majedie	UK Equity	22.5%	FTSE All-Share Index +2% p.a. over three year rolling periods	31/08/05
LGIM	Global Equity	22.5%	FTSE All World Index	30/11/15
Ruffer	Dynamic Asset Allocation	10.0%	3 Month Sterling LIBOR +4% p.a.	31/07/08
Insight	Bonds Plus	10.0%	3 Month Sterling LIBOR +2% p.a.	30/09/15
Invesco	Private Equity	0.0%	n/a	30/09/09
Unicapital	Private Equity	0.0%	n/a	30/09/09
Partners Group	Multi Asset Credit	7.5%	3 Month Sterling LIBOR +4% p.a.	28/01/15
Oak Hill Advisors	Multi Asset Credit	7.5%	3 Month Sterling LIBOR +4% p.a.	01/05/15
Partners Group	Infrastructure Fund	5.0%	3 Month Sterling LIBOR +8% p.a.	31/08/2015
M&G	Inflation Opportunities	10.0%	RPI +2.5%	01/05/15
Standard Life Investments	Long Lease Property	5.0%	FT British Government All Stocks Index +2.0%	09/04/15
	Total	**100.0%**		

Note, for the benchmark performance calculation, we assume a 10% allocation to Partners Group MAC and Oak Hill Advisors MAC, and 0% allocation to Partners Group Infrastructure. This will be re-weighted as the Infrastructure Fund is drawn down.

Appendix 2 – Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3 - Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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London Borough of Hammersmith and Fulham Pension Fund

Funding update report as at 31 December 2015

Barnett Waddingham LLP

15 February 2016

Contents

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Introduction

We have carried out a quarterly monitoring assessment of the London Borough of Hammersmith and Fulham Pension Fund (the Fund) as at 31 December 2015. The purpose of this assessment is to provide an update on the funding position.

We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.

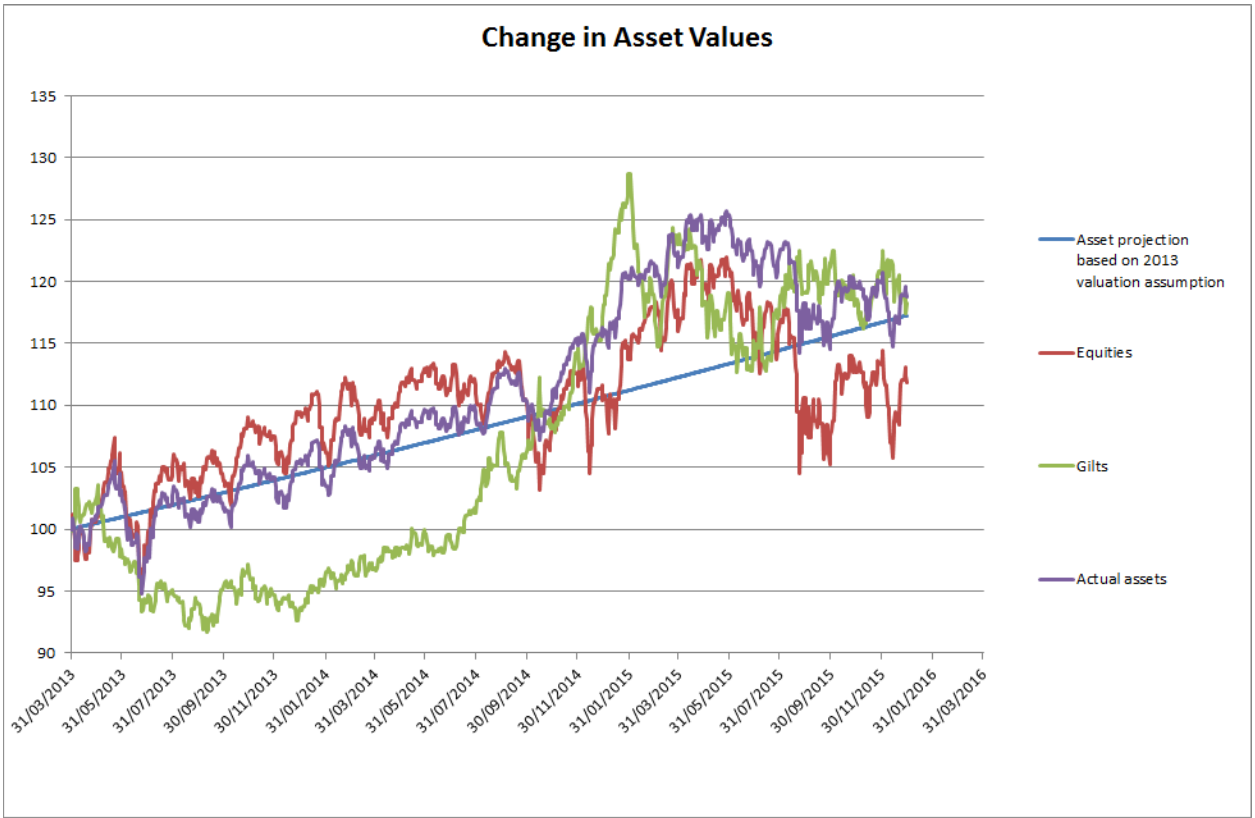
Assets

The estimated (unsmoothed) asset allocation of the London Borough of Hammersmith and Fulham Pension Fund as at 31 December 2015 is as follows:

Assets (market value)	31 Dec 2015		30 Sep 2015		31 Mar 2013	
	£000s	%	£000s	%	£000s	%
Absolute return	71,963	8.5%	67,512	8.1%	191,468	26.4%
Commodities	3,101	0.4%	3,058	0.4%	4,615	0.6%
Hedge funds	0	0.0%	0	0.0%	101,396	14.0%
UK and overseas equities	457,847	54.0%	460,742	55.5%	390,299	53.9%
Inflation Opportunities Fund	77,000	9.1%	78,905	9.5%	0	0.0%
Property	45,032	5.3%	44,434	5.3%	0	0.0%
Gilts	33,517	4.0%	34,166	4.1%	23,755	3.3%
Cash and accruals	62,300	7.3%	42,803	5.2%	12,553	1.7%
Secure Income Funds	97,410	11.5%	99,274	11.9%	0	0.0%
Total assets	**848,170**	**100%**	**830,894**	**100%**	**724,086**	**100%**

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 December 2015 is estimated to be 2.2%. The return achieved since the previous valuation is estimated to be 18.8% (which is equivalent to 6.5% p.a.).

The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares them with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



As we can see the asset value as at 31 December 2015 in market value terms is slightly more than where it was projected to be at the previous valuation.

Changes in market conditions – market yields and discount rates

The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	31 Dec 2015		30 Sep 2015		31 Mar 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases	2.64%	-	2.69%	-	2.74%	-
Salary increases	4.44%	1.80%	4.49%	1.80%	4.54%	1.80%
Discount rate	5.63%	2.99%	5.66%	2.97%	5.96%	3.22%

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is lower than at the 31 March 2013 valuation, increasing the value of liabilities used for funding purposes.

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Summary of results

The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 31 December 2015 is 82.8% and the average required employer contribution would be 25.1% of payroll assuming the deficit is to be paid by 2035;
- this compares with the reported (smoothed) funding level of 82.9% and average required employer contribution of 21.9% of payroll at the 31 March 2013 funding valuation.

The discount rate underlying the smoothed funding level as at 31 December 2015 is 5.6% p.a. The investment return required to restore the funding level to 100% by 2035, without the employers paying deficit contributions, would be 6.6% p.a.

The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

We would be pleased to answer any questions arising from this report.

Graeme D Muir

Graeme D Muir FFA
Partner
Barnett Waddingham LLP

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Appendix 1 **Financial position since previous valuation**

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Smoothed Valuation date	Assets £000s	Liabilities £000s	Surplus/ Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2013	715,915	863,421	(147,506)	83%	13.6%	8.3%	21.9%	6.0%	6.8%
30 Apr 2013	723,791	867,688	(143,897)	83%	13.6%	8.1%	21.7%	6.0%	6.8%
31 May 2013	728,946	868,509	(139,564)	84%	13.6%	7.8%	21.4%	6.0%	6.8%
30 Jun 2013	731,739	867,699	(135,960)	84%	13.5%	7.7%	21.1%	6.0%	6.8%
31 Jul 2013	735,705	868,567	(132,861)	85%	13.4%	7.5%	20.9%	6.1%	6.8%
31 Aug 2013	737,087	868,857	(131,770)	85%	13.3%	7.5%	20.8%	6.1%	6.9%
30 Sep 2013	741,569	872,754	(131,185)	85%	13.3%	7.4%	20.8%	6.1%	6.9%
31 Oct 2013	746,859	877,215	(130,356)	85%	13.4%	7.4%	20.8%	6.1%	6.8%
30 Nov 2013	750,901	877,319	(126,419)	86%	13.3%	7.2%	20.5%	6.1%	6.8%
31 Dec 2013	755,725	881,184	(125,459)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
31 Jan 2014	760,194	884,185	(123,991)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
28 Feb 2014	763,200	887,025	(123,825)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
31 Mar 2014	767,141	891,546	(124,405)	86%	13.4%	7.1%	20.5%	6.1%	6.8%
30 Apr 2014	774,710	898,649	(123,939)	86%	13.4%	7.3%	20.7%	6.0%	6.8%
31 May 2014	777,240	903,109	(125,869)	86%	13.5%	7.4%	20.9%	6.0%	6.8%
30 Jun 2014	779,486	910,536	(131,049)	86%	13.6%	7.7%	21.4%	6.0%	6.7%
31 Jul 2014	786,787	919,151	(132,364)	86%	13.7%	8.0%	21.6%	5.9%	6.7%
31 Aug 2014	790,518	923,582	(133,064)	86%	13.7%	8.0%	21.7%	5.9%	6.7%
30 Sep 2014	793,688	927,324	(133,636)	86%	13.7%	8.1%	21.8%	5.9%	6.6%
31 Oct 2014	809,074	936,788	(127,714)	86%	13.9%	7.7%	21.6%	5.8%	6.5%
30 Nov 2014	820,047	942,490	(122,443)	87%	14.0%	7.4%	21.4%	5.7%	6.4%
31 Dec 2014	826,997	949,981	(122,983)	87%	14.0%	7.2%	21.2%	5.7%	6.4%
31 Jan 2015	855,764	980,516	(124,752)	87%	14.8%	7.1%	22.0%	5.5%	6.1%
28 Feb 2015	864,770	991,732	(126,962)	87%	15.1%	7.2%	22.3%	5.4%	6.1%
31 Mar 2015	870,515	993,332	(122,817)	88%	15.0%	7.0%	22.0%	5.5%	6.1%
30 Apr 2015	878,102	994,164	(116,062)	88%	14.9%	6.7%	21.6%	5.5%	6.2%
31 May 2015	881,346	993,323	(111,977)	89%	14.8%	6.5%	21.3%	5.6%	6.2%
30 Jun 2015	873,687	1,011,062	(137,376)	86%	15.2%	7.9%	23.1%	5.6%	6.3%
31 Jul 2015	865,694	1,007,723	(142,028)	86%	15.0%	8.3%	23.3%	5.6%	6.4%
31 Aug 2015	859,078	1,002,550	(143,472)	86%	14.8%	8.4%	23.2%	5.7%	6.5%
30 Sep 2015	852,034	1,003,210	(151,176)	85%	14.8%	8.9%	23.7%	5.7%	6.5%
31 Oct 2015	843,263	998,529	(155,265)	84%	14.5%	9.2%	23.8%	5.7%	6.6%
30 Nov 2015	836,735	995,931	(159,196)	84%	14.4%	9.5%	23.9%	5.7%	6.6%
31 Dec 2015	836,915	1,011,328	(174,413)	83%	14.7%	10.4%	25.1%	5.6%	6.6%

Appendix 4: CASHFLOW MONITORING: October 2015 to December 2015

Cashflow actuals and forecast for period April 2015 to March 2016

	Apr15 £000	May15 £000	Jun15 £000	Jul15 £000	Aug15 £000	Sep15 £000	Oct15 £000	Nov15 £000	Dec15 £000	Jan16 £000	Feb16 £000	Mar16 £000
	Actual	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**F'cast**	**F'cast**	**F'cast**
Balance b/f	**4,486**	**2,415**	**8,013**	**8,658**	**7,347**	**6,175**	**4,871**	**3,718**	**7,785**	**5,048**	**3,893**	**2,088**
Contributions	322	8,358	3,521	1,973	1,870	1,875	2,000	1,786	1,815	1,850	1,850	1,850
Pensions	-2,392	-2,410	-2,401	-2,403	-2,418	-2,376	-2,424	-2,458	-2,425	-2,430	-2,430	-2,430
Lump Sums	-1	-334	-410	-501	-1,390	-69	-613	-523	-355	-450	-450	-450
Net TVs in/(out)	0	0	298	-2	15	-145	-58	230	-178	-75	-75	-75
Expenses	1	-17	-363	-378	-298	-589	-57	-324	-1,593	-50	-700	-700
Net cash in/(out) in month	-2,071	5,598	645	-1,311	-2,221	-1,304	-1,152	-1,289	-2,737	-1,155	-1,805	-1,805
Withdrawals from Fund Managers	0	0	0	0	1,049	0	0	5,355*	0	0	0	1,920**
Balance c/f	**2,415**	**8,013**	**8,658**	**7,347**	**6,175**	**4,871**	**3,718**	**7,785**	**5,048**	**3,893**	**2,088**	**2,203**

**£5m from LGIM as agreed by cttee in Sept 2015; balance from private equity. ** Distributions from private equity, Partners Multi Asset Credit & infrastructure.*

Cashflow actuals compared to forecast in October 2015 to December 2015 quarter

	October 2015		November 2015		December 2015		Oct to Dec 2015
	Forecast	**Actual**	**Forecast**	**Actual**	**Forecast**	**Actual**	**Variance**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Contributions	1,850	2,000	1,850	1,786	1,850	1,815	51
Pensions	-2,430	-2,424	-2,430	-2,458	-2,430	-2,425	-17
Lump Sums	-450	-613	-450	-523	-450	-355	-141
Net TVs in/(out)	-75	-58	-75	230	-75	-178	219
Expenses	-50	-57	-2,000	-324	-50	-1,593	126
Withdrawals from Fund Managers	0	0	5,355	5,355	0	0	0
Totals	**-1,155**	**-1,152**	**-3,105**	**4,066**	**-1,155**	**-2,737**	**238**

Notes on variances in quarter:

- Lump sums are variable and difficult to predict accurately.
- Net transfers in/(out) were net nil across the quarter due to two large transfers in being received in the quarter.

Appendix 5: Pension Fund risk register, March 2016

<u>Changes to the risk register since previous quarter</u>

Type	Ref	Risk	Rationale

NO CHANGES THIS QUARTER

Pension Fund risk register, March 2016

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Review Date
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	Strategic Finance Director	Mar 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	Strategic Finance Director	Mar 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	5	Low 10	Strategic Finance Director	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	Strategic Finance Director	Mar 2016
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in investment strategy reviews.	2	1	Very Low 2	Strategic Finance Director	Mar 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	Strategic Finance Director	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored quarterly.	2	3	Low 6	Strategic Finance Director	Mar 2016
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	Strategic Finance Director and Bi-borough Director of HR	Mar 2016
9	**STRATEGIC: REGULATION** **I**ntroduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of this developing issue.	4	3	Medium 12	Strategic Finance Director	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	Strategic Finance Director	Mar 2016
11	**OPERATIONAL: GOVERNANCE** Sub-committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place	3	3	Low 9	Strategic Finance Director	Mar 2016
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions teams provides resilience and sharing of knowledge.	3	3	Low 9	Strategic Finance Director and Bi-borough Director of HR	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Sub-committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	Strategic Finance Director	Mar 2016
14	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	2	Low 6	Strategic Finance Director and Bi-borough Director of HR	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
15	**OPERATIONAL: FUNDING** Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review “budgets” at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	Strategic Finance Director and Bi-borough Director of HR	Mar 2016
16	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6	Strategic Finance Director and Bi-borough Director of HR	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score Likelihood	Residual risk score Impact	Risk Rating	Officer responsible	Review Date
17	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. There are currently some challenges with the standard controls and therefore the regular reconciliation processes. Mitigating controls and checks have been put in place to address this. • Periodic internal audits of Pensions Finance and HR teams.	4	2	Low 8	Strategic Finance Director and Bi-borough Director of HR	Mar 2016
18	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	Strategic Finance Director and Bi-borough Director of HR	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
19	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments (to fund managers and advisers) not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of payments. • Officers are tracking payments through the system to ensure scheme members and suppliers receive them. • Officers undertaking additional reconciliation work to verify accounting transactions.	4	4	High 16	Strategic Finance Director	Mar 2016
20	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• Pensioner payroll system is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required.	1	5	Very Low 5	Bi-borough Director of HR	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
21	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• SCC's Altair system allows for all pensioner benefits to be automatically calculated by the administration system. • Pensioner benefits are double-checked by another team member in SCC before being released. • Spot checks are undertaken by the Client Team for accuracy.	2	3	Low 6	Bi-borough Director of HR	Mar 2016
22	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pensioner administration system Altair is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for Altair to be run from an alternative site if required. Payments can be made from other UK sites other than SCC's HQ.	1	5	Very Low 5	Bi-borough Director of HR	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
23	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• SCC's pension teams are highly skilled and knowledgeable in the area of LGPS administration. • The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure. • Team members received regular training on LGPS and on changes or enhancements to the pension administration system. • There are regular monthly meetings with the Client Manager to review performance.	2	3	Low 6	Bi-borough Director of HR	Mar 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
24	**OPERATIONAL: ADMINISTRATION** The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required for Surrey County Council to correctly administer the LGPS to scheme members.	• A meeting with the actuary is planned for November 2015 to review the data requirements for the 2016 triennial review and this will be used to guide priorities in terms of filling any gaps that exist with the data. • A log of known data issues is being kept and a plan to address these will be developed before Christmas 2015, aligned to the outcome of the meeting with the actuary planned for November 2015. • Shortfalls in the range or quality of inherited data are being raised with Capita to determine the cause and identify what measures can be put in place to rectify the deficiency.	3	5	Medium 15	Bi-borough Director of HR	Mar 2016

Appendix 6: Pension Fund Voting Summary: October to December 2015

The investment managers managing the Fund's assets on a segregated basis are able to report on how they have voted the Fund's specific holdings at AGMs and EGMs of companies the Fund is invested in. The majority of the Fund's equities are managed on a segregated basis by Majedie and Ruffer. Majedie and Ruffer also hold small portions of the Fund's monies in pooled funds, where votes are cast on behalf of the pooled fund as a whole.

The MFS mandate was terminated on 16th November 2015 and voting information is not available from them.

The investment managers all use the services of Institutional Shareholder Services (ISS) who are a leading provider of corporate governance research and provide advice to its clients about voting in line with corporate governance principles.

The table below provides information about the votes cast in respect of the segregated assets during the quarter October to December 2015. This includes the number of occasions the managers voted against management recommendations and ISS recommendations.

	Majedie	**Ruffer**
No. of meetings	40	9
No. of resolutions	270	50
Votes not in line with management	9	0
Votes not in line with ISS	15	0

London Borough of Hammersmith & Fulham PENSIONS SUB-COMMITTEE 16TH MARCH 2016	
KNOWLEDGE AND SKILLS POLICY REVIEW	
Report of the Strategic Finance Director	
Open Report	
Classification - For Review & Comment **Key Decision: No**	
Wards Affected: None	
Accountable Executive Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Nicola Webb, Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. It is good practice for members of the Pensions sub-committee to have appropriate knowledge and skills to carry out their role. The sub-committee approved a Knowledge and Skills policy for the Fund in June 2015 and in accordance with this have been asked to undertake a self-assessment of their current level of knowledge and skills and future needs. The Pensions Board have also undertaken self-assessments to enable the development of future training opportunities for all those involved in the running of the Pension Fund.

1.2. This report sets out the areas most members have highlighted for future training and seeks members' views on the format and timing of future training sessions, as well as feedback on the training provided to date.

2. RECOMMENDATIONS

2.1. That the sub-committee discuss the format and timing of future training sessions, in addition to feedback on the training to date.

3. REASONS FOR DECISION

3.1. The sub-committee's feedback will inform future training plans and ensure they are appropriate for members' needs.

4. INTRODUCTION AND BACKGROUND

4.1. The Hammersmith and Fulham Pension Fund's approach to knowledge and skills is set out in the Knowledge and Skills policy agreed by the Pensions sub-committee in June 2015. In accordance with the policy members have been asked to complete a self-assessment to enable the development of appropriate training opportunities.

4.2. Pension Board members have a legal requirement under the Public Service Pensions Act 2013 to ensure they have appropriate knowledge and skills to carry out their role. The Board formally adopted the Fund's Knowledge and Skills policy at their inaugural meeting in July 2015.

5. PROPOSAL AND ISSUES

5.1 The various investment strategy and fund manager selection exercises undertaken over the last 18 months have provided the sub-committee with increased knowledge of various asset classes. Sub-committee members were also invited to join more formal training provided by Barnett Waddingham alongside Pensions Board members.

5.2 Firstly, two introductory training sessions were run in November 2015 to provide information about the legal context of the scheme and the changes to the governance arrangements resulting from the Public Service Pensions Act 2013. This was attended by all members of the Board and one member of the sub-committee.

5.3 On 9th February 2016 a training session on actuarial valuations was delivered by the Fund Actuary, Graeme Muir of Barnett Waddingham. This was attended by two members of the sub-committee, as well as three members of the Pensions Board.

5.4 Following these training sessions, members have been asked to complete the self-assessment form in the Knowledge and Skills policy document to detail their existing knowledge and skills and the areas which they would like further training on. Two members of the sub-committee have returned their forms so far.

5.5 The Pensions Board members have also been asked to complete self-assessments of their knowledge and skills and it is proposed to once again undertake joint training for those from both bodies who require it. Following analysis of Board members' self-assessments and a discussion at the Pensions Board meeting on 23rd February 2016, they agreed that training on the following areas would be helpful:

- Pensions accounting and auditing standards
- Financial Services procurement
- Investment performance and risk management
- Financial markets and products knowledge

5.7 It is proposed that the first two areas be covered by an officer briefing in advance of the reporting of the Pension Fund annual report and accounts in September 2016. It is suggested that the second two areas are covered by a training session provided by the Pension Fund's investment adviser or one of the fund managers. Not all sub-committee members will require such training but all members of both the Board and the sub-committee will be informed of any training opportunities and invited to attend.

5.8 Those sub-committee members who have not yet completed the self-assessment are encouraged to do so. The sub-committee's views are sought at this meeting on training provided to date, as well as views on the format and timing of future training in addition to that already being arranged at the request of the Board.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable, as this report is for discussion.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. None.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. The proposed training options incur no cost, except for any training provided by the Pension Fund's investment adviser. The cost, which would be charged to the Pension Fund, will depend on the timing and format, but will be charged at the rates agreed in the investment advisory contract.

11. IMPLICATIONS FOR BUSINESS

11.1 None.

12. RISK MANAGEMENT

12.1 Not applicable.

13. PROCUREMENT IMPLICATIONS

13.1 None.

14. IT STRATEGY IMPLICATIONS

14.1 None.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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1.			

LIST OF APPENDICES:

None.

Agenda Item 6

London Borough of Hammersmith & Fulham **PENSIONS SUB-COMMITTEE** **16TH MARCH 2016**	h&f hammersmith & fulham
ASSET POOLING AND LONDON CIV UPDATE	
Report of the Strategic Finance Director	
Open Report A separate report on the exempt part of the agenda provides exempt financial information.	
Classification - For Decision **Key Decision: No**	
Wards Affected: All	
Accountable Executive Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Nicola Webb, Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Government consultation on the pooling of LGPS assets states an intention for there to be six pools of assets of around £25bn nationally with a proposal to change the investment regulations to enforce the pooling. Hammersmith and Fulham as shareholders of the London CIV, are signatories to the initial response to the Government from the London CIV.

1.2. The London CIV has achieved regulatory status and has already taken on some assets from London Pension Funds. It is proposed to transfer the assets managed by Ruffer in late May / early June 2016 which would result in annual fee savings of approximately £31k for Hammersmith and Fulham. The transfer of the LGIM assets is currently expected to take place in June 2016.

2. RECOMMENDATIONS

2.1. That the sub-committee delegate to the Strategic Finance Director, in consultation with the Chair of the Pensions sub-committee, the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.

3. REASONS FOR DECISION

3.1. The agreement of this delegation will allow officers, in consultation with the Chair, to proceed with the transfer of assets to the London CIV between meetings and secure fee savings at the earliest opportunity.

4. INTRODUCTION AND BACKGROUND

4.1. On 7th April 2014 Cabinet agreed that Hammersmith and Fulham Council be a shareholder in the Authorised Contractual Scheme (ACS) Operator set up to run the London LGPS Collective Investment Vehicle (London CIV). It was also agreed that the Chair of the Audit, Pensions and Standards Committee be appointed to the Pensions Joint Committee of elected members responsible for overseeing the London CIV.

4.2. An update on progress with the London CIV was reported to the Pensions sub-committee on 9th September 2015. At that meeting it was agreed that the Fund would invest £150,000 in the CIV to meet regulatory capital requirements and this investment was made in November 2015. It was also agreed that a further £25,000 contribution be made to the set up costs, taking the total contribution to £75,000. This was paid in October 2015.

4.3. On 25th November 2015 the Government published two consultation documents in which it confirmed its intention to require LGPS funds in England and Wales to form pools of assets of approximately £25bn with the purpose of saving investment management costs, improving performance and facilitating a greater investment in infrastructure. A response was required by 19th February 2016 on initial plans for pooling either individually or collectively, with a more detailed plan to follow by 15th July 2016.

4.4. Alongside the consultation on pooling, the Government published draft revised investment regulations for consultation. The aim of the proposed regulations is to ensure the regulatory framework allows pooling to take place. The proposals give wide intervention powers to the Government to enforce the pooling of assets and also seek to update the previous regulations much of which date from 1999.

5. PROPOSAL AND ISSUES

GOVERNMENT CONSULTATION

5.1 Following the Chancellor's Autumn Statement on 25th November 2015, the government published its proposals and timetable for requiring LGPS schemes to pool their assets. The consultation documents were emailed to Pensions sub-committee members on 26th November 2015 and are attached at appendices 1 and 2 for reference.

5.2 The consultation proposes that LGPS investments should be managed via six pools, each with a minimum of £25bn, which could be used to invest in infrastructure and local growth. Responses to this consultation were expected to set out a proposal based around four key criteria:

- Benefits of scale i.e. at least £25bn
- Strong governance and decision making
- Reduced costs but based upon more transparent reporting of costs
- Capacity to invest in infrastructure

5.3 Initial proposals were to be submitted to the Government by 19 February 2016 and it was clarified that a collective response from each pool would be appropriate. As shareholders of the London CIV, Hammersmith and Fulham are one of the signatories of the response from the London CIV attached at Appendix 3. Each Fund will be expected to respond by 15th July 2016 with a commitment to a particular asset pool, and a profile of current costs and anticipated savings. This will include expected transition costs and any assets likely to held outside the pool and the rationale for doing so e.g. private equity closed funds.

5.4 The Government are also consulting on revisions to the LGPS Management and Investment of Funds regulations which aim to complement the above consultation. This is seeking to implement a 'prudential' approach to replace the existing schedule of investment limits, which caused the sub-committee issues in respect of the Partners infrastructure investment in the summer last year. This will place the responsibility for setting a suitable diversified investment strategy on individual funds. However, in relaxing the regulations it is proposed to introduce safeguards in the form of powers for the Secretary of State to intervene at individual fund level to enforce pooling and if investment strategies do not adhere to regulation and guidance.

LONDON CIV UPDATE

5.5 The London CIV has now achieved regulated status and has commenced the process of taking on the management of assets from London pension funds. The initial transfers are on boarding of shared mandates and do not involve any changes to the fund manager or investments. Assets in the Allianz diversified growth fund involving three London funds were transferred in December 2015 and a further seven funds are transferring assets invested in Baillie Gifford's global equity and diversified growth funds in February 2016.

5.6 The London CIV have been in discussions with Ruffer about the transfer of assets. It is proposed that the five London funds invested with Ruffer, including

Hammersmith and Fulham, transfer their assets into a pooled fund on the London CIV platform from the existing segregated mandates. Ruffer have said that 99% of the assets would transfer in-specie and no transition costs are expected. The pooled fund would be managed with the same philosophy and asset allocation with the exception of one holding which is less than 1% of the current portfolio. It is proposed this could take place in late May / early June 2016.

5.6 Exempt appendix 4 sets out a report from Deloitte about the implications of the proposed transfer, including the current fees paid to Ruffer and the fee Ruffer is offering following transfer to the London CIV. Further fee reductions are possible in the future as the mandate will be open to other London pension funds to join and if the total assets under management reaches £1bn a fee reduction will be applied to all. It can be seen that moving to the London CIV platform is expected to save Hammersmith and Fulham £31k per annum.

5.7 When the sub-committee agreed to appoint Legal & General Investment Management (LGIM) to manage the passive equities for the Fund, it was anticipated they would be transferred to the London CIV and the fee level currently payable is on the basis that the transfer of Hammersmith and Fulham's assets happens as soon as it is possible. The current expected date for this transfer is June 2016. The sub-committee is asked to agree the proposed delegation set out in section 2 to allow officers to progress the transfer of the Ruffer and LGIM assets as soon as it is possible.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. As Hammersmith and Fulham are already shareholders of the London CIV, have contributed to the set up costs and invested regulatory capital, it is appropriate for the Fund to pool assets in the London CIV. Although there are seven other pools being suggested nationally at this stage, no other pool is as advanced in terms of being able to take on assets and achieve fee savings. As a founding shareholder of the London CIV, Hammersmith and Fulham have the opportunity to influence the future direction through the Joint Committee the Chair of the Pensions sub-committee sits on. It is not clear that this influence would be possible outside the London CIV. Although developments will be monitored as the other pools develop, it is believed the London CIV is the best option for Hammersmith and Fulham.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. None.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. The savings from transferring the assets managed by Ruffer to the London CIV are expected to be £31k per annum. No additional saving is expected from transferring the LGIM assets, as they already charge the CIV rate following the Fund's commitment to transfer to the CIV at the earliest opportunity.

11. IMPLICATIONS FOR BUSINESS

11.1 None.

12. RISK MANAGEMENT

12.1 Not applicable.

13. PROCUREMENT IMPLICATIONS

13.1 None.

14. IT STRATEGY IMPLICATIONS

14.1 None.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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1.			

LIST OF APPENDICES:

Appendix 1: Department of Communities and Local Government – LGPS: Revoking and replacing the LGPS (Management and Investment of Funds) regulations 2009 consultation

Appendix 2: Department of Communities and Local Government – LGPS: Investment Reform Criteria and Guidance

Appendix 3: London CIV and participating boroughs response to the Government consultation

EXEMPT

Appendix 4: Deloitte – Ruffer CIV Proposal.

Department for
Communities and
Local Government

Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Consultation

November 2015
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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Fry Building
2 Marsham Street
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November 2015

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Contents

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact DCLG Consultation Co-ordinator.

Department for Communities and Local Government

2 Marsham Street

London

SW1P 4DF

or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	This consultation proposes to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 with the draft regulations described in this paper. There are two main areas of reform: 1. A package of reforms that propose to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. 2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.
Scope of this consultation:	Views are sought on: 1. Whether the proposed revisions to the investment regulations will give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk. 2. Whether the proposals to introduce the power of intervention as a safeguard will enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme (the Scheme) and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions Division.
Duration:	25 November 2015 to 19 February 2016
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **19 February 2016**. Electronic responses are preferred. However, you can also write to: LGPS Reform Department for Communities and Local Government 2/SE Quarter, Fry Building 2 Marsham Street London SW1P 4DF
Additional ways to become involved:	If you would like to discuss the proposals, please email LGPSReform@communities.gsi.gov.uk
After the consultation:	All consultation responses will be reviewed and analysed. A Government response will then be published within three months, and subject to the outcome of this consultation, the resulting regulations laid in Parliament.
Compatibility with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	The proposals in this consultation are the culmination of work looking into Local Government Pension Scheme investments that began in early 2013. It has been developed in response to the May 2014 consultation, *Opportunities for collaboration, cost savings and efficiencies,* which considered whether savings might be delivered through collective investment and greater use of passive fund management. A copy of the consultation and the Government's response is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies. The consultation responses called for a voluntary approach to reform, opposing the introduction of a single, national model of pooling. The Government has therefore invited authorities to develop their own proposals for pooling, subject to common criteria and guidance. The criteria for reform have been developed using the consultation responses and following a series of workshops and conversations with authorities and the fund management industry since the July Budget 2015. Some respondents to the May 2014 consultation also suggested that amendments were required to the investment regulations in order to facilitate greater investment in pooled vehicles. In addition, prior to that consultation, authorities and the fund management industry had called for wider reform. A small working group, whose participants are listed in Annex A, was established to look at whether the approach to risk management and diversification in the existing regulations was still appropriate. They recommended moving towards the "prudential person" approach that governs trust based pension schemes. The group also sought clarity as to whether certain types of investment were possible, such as the use of derivatives in risk management. The work of that group has informed the development of this consultation. In relaxing the regulatory framework for scheme investments, it is important to introduce safeguards to ensure that the less prescriptive approach is used appropriately. The July Budget 2015 announcement also indicated that measures should be introduced to ensure that those authorities who do not bring forward ambitious proposals for pooling, in keeping with the criteria, should be required to pool. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

Previous engagement:	The proposed changes in this consultation are the result of a programme of engagement that began in summer 2013: • Round table event, 16 May 2013. Representatives of administering authorities, employers, trade unions, the actuarial profession and academia discussed the potential for increased cooperation within the Scheme. • A call for evidence, run with the Local Government Association, June to September 2013. This gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The results were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their analysis of the responses. • Consultation, *Opportunities for collaboration, cost savings and efficiencies,* May to June 2014. The consultation set out how savings of £470-660m a year could be achieved by collective investment and greater use of passive fund management. It also sought views as to how these reforms might best be implemented. The Government's response is available online: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies. • Informal engagement, July to November, 2015. Since the July Budget 2015 announcement, officials have attended over 25 workshops and bi-lateral meetings with administering authorities and the fund management industry. These discussions have been used to develop the criteria for reform and inform how the proposed power of the Secretary of State to intervene might work. In addition, the Investment Regulation Review Group was formed in 2012 to consider potential amendments to the investment regulations. The group included representatives from administering authorities, actuarial firms, pension lawyers and the fund management industry. An initial proposal for reform was prepared that has also informed the development of the draft regulations that are the subject of this consultation.

Introduction and Background

Introduction

1.1 In May 2014 the Government published a consultation which set out how savings of up to £660m a year might be achieved through greater use of passive management and pooled investment. Investing collectively can help authorities to drive down costs and access the benefits of scale, and also enables them to develop the capacity and capability to invest more cost effectively in illiquid asset classes such as infrastructure. The Government has therefore invited authorities to develop ambitious proposals for pooling assets that meet published criteria. More information about the criteria and process of reform is available on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance.

1.2 This consultation complements that invitation, recognising that the existing regulations place restrictions on certain investments that may constrain authorities considering how best to pool their assets. It therefore proposes to move to a prudential approach to securing a diversified investment strategy that appropriately takes account of risk. In so doing, and to ensure that authorities take advantage of the benefits of scale, the Government proposes to introduce a power to allow the Secretary of State to intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

1.3 This paper sets out the purpose and rationale of the suggested amendments to the investment regulations, and seeks views as to whether the proposed approach would best deliver those stated aims.

Background

1.4 With assets of £178bn at its last valuation on 31 March 2013, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

1.5 The Scheme is managed through 90 administering authorities which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London boroughs. In most cases, the administering authorities are upper tier local authorities such as county or unitary councils, but there are also some authorities established specifically to manage their pension liabilities, for example the London Pension Fund Authority and the Environment Agency Pension Fund. The

[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

administering authorities have individual governance and working arrangements. Each has its own funding level, cash-flow and balance of active, deferred and pensioner members. Authorities take these circumstances into account when preparing their investment strategies, which are normally agreed by the councillors on each authority's pension committee. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 set the legal framework for the development of these investment strategies and the investments carried out by administering authorities. This consultation proposes that the Government revokes and replaces those regulations.

1.6 Under the Public Service Pensions Act 2013, there is a requirement for a national scheme advisory board, as well as a local board for each of the 90 funds. In 2013, Scheme employers and the trade unions established a shadow board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. Appointments have now been made to the national scheme advisory board and the Chair is expected to be appointed shortly.

Getting to this stage

2.1 The consultation is formed of two main proposals:

1. A package of reforms that propose to remove some the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. The changes proposed would move towards the “prudent person” approach to investment that applies to trust based pension schemes.
2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately, and that the guidance on pooling assets is adhered to, including a power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.

Pooling assets to deliver the benefits of scale

2.2 The proposals set out in this consultation are the culmination of work carried out over the last two and a half years to explore how to reform the way the Scheme makes its investments in order to achieve the benefits of scale and drive efficiencies.

2.3 In summer 2013, the coalition government launched a call for evidence to explore how the Scheme might be made more sustainable and affordable in the long term. 133 responses were received, many of which took the opportunity to discuss whether collective investment and greater collaboration might deliver savings for the Scheme.

2.4 Following the call for evidence, the Minister for the Cabinet Office and Minister for Local Government commissioned a cost-benefits analysis from Hymans Robertson on a range of proposals. Hymans Robertson’s report explored three areas:

- **The cost of investment:** Many of the costs associated with investment are not transparent and so difficult to capture. The costs of managing and administering the Scheme were reported as being £536 million in 2012-13.[2] However, Hymans Robertson found that the actual cost was likely to be rather higher; with investment costs alone estimated as in excess of £790 million a year.[3]
- **Approaches to collaboration:** Hymans Robertson was asked to examine the costs and benefits of three options for reform: merging the authorities into 5-10 funds, creating 5-10 collective investment vehicles, or establishing just 1-2 collective investment vehicles. They found that the net present value of savings over ten years was highest with a small number of vehicles, while merging funds offered the lowest benefit.[4]

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[2] Local government pension scheme funds summary data: 2012 to 2013
[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson pp. 10-11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies
[4] Hymans Robertson, p.6

- **The aggregate performance of the scheme:** The report found that the Scheme as a whole had been achieving the market rate of return in each of the main equity markets over the ten years to March 2013. If the Scheme's investments in bonds and equities had been managed passively instead of actively, authorities could have saved at least £230m a year in management fees without affecting overall investment returns.[5]

2.5 Drawing on the Hymans Robertson report and the call for evidence, the coalition government published a consultation in May 2014 entitled *Opportunities for collaboration, cost savings and efficiencies*. This set out how the Scheme could save up to £660m a year by using collective investment vehicles and making greater use of passive management for listed assets like bonds and equities. The consultation sought views on these proposals, and how they might be most effectively implemented. Respondents were broadly in favour of pooling assets, but felt that any reform should be voluntary and led by administering authorities. While many recognised a role for passive management in an investment strategy, most also felt that some active management should be retained.

2.6 At the July Budget 2015, Ministers having reflected on the consultation responses, the Chancellor announced the Government's intention to invite administering authorities to bring forward proposals for pooling local government pension scheme investments. Authorities' proposals would be assessed against published criteria, designed to encourage ambition in the pursuit of efficiencies and the benefits of scale. These criteria have now been published and are available online at https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance.

Updating the investment regulations

2.7 When considering the implications of creating asset pools amongst authorities, some respondents to the May 2014 consultation took the opportunity to call for a review of the existing investment regulations. At their introduction in 2009, the regulations sought to ensure that authorities established a balanced and diversified portfolio by placing restrictions on the proportion of their assets that could be invested in different vehicles. For example, deposits with a single bank, institution or person, (other than the National Savings Bank), were restricted to 10% of an authority's assets. These restrictions have been kept under regular review and have been subject to change following representations from the investment sector and pension fund authorities.

2.8 Some respondents to the consultation suggested that the current limits on investments would prevent authorities from making meaningful allocations to a collective investment vehicle, one of the leading options for asset pooling, as the allocation to particular types of vehicle is capped at 35%. Participants in the London Boroughs' collective investment vehicle and the collaboration between the London Pension Fund Authority and Lancashire County Council also wrote to the Department encouraging reform in this area.

[5] Hymans Robertson, p.12

2.9 While the proposals for collective investment in the May 2014 consultation prompted encouragement to review the investment regulations, the idea of reform was not new. In 2012, following representations from the investment sector, the Government formed a small working group to revisit and examine the investment regulations with input from actuaries, fund managers and administering authorities. This group, whose membership is set out in Annex A, recommended that a more permissive approach should be taken to the legislative framework, similar to the "prudent person" model that applies to trust based pension schemes. This approach places the onus on the pension fund to determine a suitable balance of investments to meet its liabilities, which are clearly articulated in an investment strategy. The group also felt that the existing regulations introduced uncertainty for some authorities as to what constituted a permitted investment, as some asset classes were explicitly referenced but others were not. In particular, concern has been expressed as to whether or not pension fund authorities are permitted to invest in vehicles such as derivatives, hedge funds and forward currency contracts.

2.10 The proposals in this consultation paper therefore seek to address these issues, placing the onus on authorities to determine a diversified investment strategy that appropriately takes risk into account.

2.11 However, in relaxing the regulatory framework for scheme investments, it is also important to introduce safeguards to ensure that the less prescriptive approach proposed is used appropriately. Similarly, the July Budget 2015 announcement stated that draft regulations would be introduced to require an authority to pool its investments if it did not bring forward ambitious proposals that met the Government's criteria. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

Response to the Law Commission's Review of Fiduciary Duty

2.12 The Kay Review on Fiduciary Duty published its final report in July 2012. In addition to making a number of recommendations to address the excessive focus on short-term performance in equity investment markets, it recommended that the Government ask the Law Commission to review the fiduciary duties of investment intermediaries amid concerns that these common law duties were being interpreted by some pension schemes as a requirement to focus solely on short-term financial returns.

2.13 In their report, published in July 2014, the Law Commission called on the Department to review:

- Whether the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 should transpose article 18(1) of the Institutions for Occupational Retirement Provision (IORP) Directive, and
- Those aspects of Regulation 9 of the 2009 Regulations which require investment managers to be appointed on a short-term basis and reviewed every three months.

2.14 These recommendations were supported by the Government's progress report on the implementation of the Kay Review published in October 2014 by the Department for Business Innovation and Skills.

2.15 Article 18(1) of the IORP Directive requires assets to be invested in the best interests of members and beneficiaries and, in the event of a conflict of interest, in the sole interests of members and beneficiaries.

2.16 Regulation 4 of The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005 No 3378) transposed Article 18(1):

"4. (1) The trustees of a trust scheme must exercise their powers of investment, and any fund manager to whom any discretion has been delegated under section 34 of the 1995 Act (power of investment and delegation) must exercise the discretion, in accordance with the following provisions of this regulation

(2) The assets must be invested:

(a) In the best interests of members and beneficiaries; and

(b) In the case of a potential conflict of interest, in the sole interest of members and beneficiaries."

2.17 The Local Government Pension Scheme is a statutory scheme made under section 1 of the Public Service Pensions Act 2013 and previously under The Superannuation Act 1972. It is not subject to trust law and those responsible for making investment decisions in the Scheme are not therefore required to comply with Regulation 4 of the 2005 Regulations.

2.18 However, this does nothing to change the general legal principles governing the administration of Scheme investments and how those responsible for such decisions should exercise their duties and powers under the Scheme's investment regulations.

2.19 In a circular issued by the then Department of the Environment in 1983 (No 24), the Secretary of State took the view that administering authorities should pay due regard to the principle contained in the case of Roberts v Hopwood [1925] A.C. 578 p. 595:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of the property of others."

2.20 Those in local government responsible for making investment decisions must also act in accordance with ordinary public law principles, in particular, the ordinary public law principles of reasonableness. They risk challenge if a decision they make is so unreasonable that no reasonable person acting reasonably could have made it.

2.21 Having considered fully the recommendation made by the Kay Review and supported by both the Law Commission and the Government, Ministers are satisfied that the Scheme is consistent with the national legislative framework governing the duties placed on those responsible for making investment decisions. The position at common law is also indistinguishable from that produced by the 2005 Regulations applicable in respect of trust-based schemes.

2.22 We do, however, propose to remove the requirement for the performance of investment managers to be reviewed once every three months from the regulations.

Proposal 1: Adopting a local approach to investment

Deregulating and adopting a local approach to investment

3.1 In developing these draft regulations, the Government has sought, where appropriate, to deregulate and simplify the regulations that have governed the management and investment of funds since 2009. Some of the existing provisions have not been carried forward into the draft 2016 Regulations in the expectation that they would be effectively maintained by general law provisions and so specific regulation is no longer needed. For example, those making investment decisions are still required to act prudently, and there remains a statutory requirement to take and act on proper advice. Some of the provisions in the 2009 Regulations which have not been carried forward on this basis include:

- Stock lending arrangements under Regulation 3(8) and (9) of the 2009 regulations. The view is taken that the definition of "investment" in draft Regulation 3 is sufficient given that a stock lending arrangement can only be used if it falls within the ordinary meaning of an "investment".
- Regulation 8(5) of the 2009 regulations ensures that funds are managed by an adequate number of investment managers and that, where there is more than one investment manager, the value of the fund money managed by them is not disproportionate. Here, the view is taken that administering authorities should be responsible for managing their own affairs and making decisions of this kind based on prudent and proper advice.
- There are many provisions in the 2009 Regulations which impose conditions on the choice and terms of appointments of investment managers. Since the activities of investment managers are governed by the contracts under which they are appointed, the view is taken that making similar provision in the 2016 Regulations would be unnecessary duplication. Examples include the requirement for investment managers to comply with an administering authority's instructions and the power to terminate the appointment by not more than one month's notice.
- Regulation 12(3) of the 2009 Regulations requires administering authorities to state the extent to which they comply with guidance given by the Secretary of State on the Myners principles for investment decision making. As part of the wider deregulation, the draft regulations make no provision to report against these principles, although authorities should still have regard to the guidance.

3.2 These examples of deregulation are for illustrative purposes only. It is not an exhaustive list of provisions which the Government proposes to remove. Consultees are asked to look carefully at the full extent of deregulation and comment on any particular case that raises concerns about the impact such an omission might have on the effective management and investment of funds.

Investment strategy statement

3.3 As part of this deregulation, the draft regulations also propose to remove the existing schedule of limitations on investments. Instead authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.

3.4 Key to this will be the investment strategy statement, which authorities will be required to prepare, having taken proper advice, and publish. The statement must cover:

- A requirement to use a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including how it will be measured and managed.
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services.
- The authority's environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

Transitional arrangements

3.5 Draft regulation seven proposes to require authorities to publish an investment strategy statement no later than six months after the regulations come into force (this is currently drafted as 1 October 2016, in case the draft regulations come into effect on 1 April 2016). However, the draft regulations would also revoke the existing 2009 Regulations when they come into effect. Transitional arrangements are therefore required to ensure that an authority's investments and investment strategy are regulated between the draft regulations coming into effect and the publication of an authority's new investment strategy statement. The transitional arrangements proposed in draft regulation 12 would mean that the following regulations in the 2009 Regulations would remain in place until the authority publishes an investment strategy or six months lapses from the date that the regulations come into effect:

- 11 (investment policy and investment of pension fund money)
- 14 (restrictions on investments)
- 15 (requirements for increased limits)
- Schedule 1 (table of limits on investments)

Statement of Investment Principles

3.6 We do not propose to carry forward the existing requirement under regulation 12 of the 2009 Regulations to maintain a Statement of Investment Principles. However, the main elements, such as risk, diversification, corporate governance and suitability, will instead be carried forward as part of the reporting requirements of the new investment strategy statement. Administering authorities will still be required to maintain their funding strategy statements under Regulation 58 of the 2013 regulations.

Non-financial factors

3.7 The Secretary of State has made clear that using pensions and procurement policies to pursue boycotts, divestments and sanctions against foreign nations and the UK defence industry are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. The Secretary of State has said, "Divisive policies undermine good community relations, and harm the economic security of families by pushing up council tax. We need to challenge and prevent the politics of division."

3.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 already require administering authorities to publish and follow a statement of investment principles, which must comply with guidance issued by the Secretary of State. The draft replacement Regulations include provision for administering authorities to publish their policies on the extent to which environmental, social and corporate governance matters are taken into account in the selection, retention and realisation of investments. Guidance on how these policies should reflect foreign policy and related issues will be published ahead of the new Regulations coming into force. This will make clear to authorities that in formulating these policies their predominant concern should be the pursuit of a financial return on their investments, including over the longer term, and that, reflecting the position set out in the paragraph above, they should not pursue policies which run contrary to UK foreign policy.

Investment

3.9 A few definitions and some aspects of regulation 3, which describes what constitutes an investment for the purpose of these regulations, have been updated to take account of changing terminology and technical changes since the regulations were last issued in 2009. For example, the reference to the London International Financial Futures Exchange (LIFFE) has been removed as it now operates as a clearing house and so is covered by the approved stock exchange definition.

3.10 Some additional information has been included to make clear that certain investments, such as derivatives, may be used where appropriate. The Government expects that having considered the appropriateness of an investment in their investment strategy statement, authorities would only use derivatives as a means of managing risk, and so has not explicitly stated that this should be the case.

Questions

1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?

2. Are there any specific issues that should be reinstated? Please explain why.

3. Is six months the appropriate period for the transitional arrangements to remain in place?

4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

Proposal 2: Introducing a safeguard - Secretary of State power of intervention

Summary of the proposal

4.1 The first part of this consultation lifts some of the existing restrictions on administering authorities' investments in order to make it easier for them to pool their investments and access the benefits of scale. To ensure that this new flexibility is used appropriately, the consultation also proposes to introduce a power to intervene in the investment function of an administering authority if the Secretary of State believes that it has not had regard to guidance and regulations. The consultation sets out the evidence that the Secretary of State may draw on before deciding to intervene, and makes clear that any direction will need to be proportionate. The power proposed in this consultation is intended to allow the Secretary of State to act if best practice or regulation is being ignored, which will help to ensure that authorities continue to pursue more efficient means of investment.

4.2 The July Budget 2015 announcement set out the Government's intention to introduce "backstop" legislation to require those authorities who do not bring forward sufficiently ambitious plans to pool their investments. It also explained that authorities' proposals would need to meet common criteria, which have been published with draft guidance alongside this consultation. The draft power to intervene discussed in this paper could be used to address authorities that do not bring forward proposals for pooling their assets in line with the published criteria and guidance. The guidance will be kept under review, and will be revised as circumstances change and authorities' asset pools evolve.

4.3 The following sections set out the process for intervention described in draft regulation 8.

Determining to intervene

4.4 The draft regulations propose to give the Secretary of State the power to intervene in the investment function an administering authority, if the Secretary of State has determined that the administering authority has failed to have regard to the regulations governing their investments or guidance issued under draft regulation 7(1). In reaching that conclusion, the Secretary of State will consider the available evidence, which might include:

- Evidence that an administering authority is ignoring information on best practice, for example, by not responding to advice provided by the scheme advisory board to local pension boards.
- Evidence that an administering authority is not following the investment regulations or has not had regard to guidance published by the Secretary of State under draft Regulation 7 (1). For example, this might include failing to participate in one of the large asset pools described in the existing draft guidance, or proposing a pooling arrangement that does not adhere to the criteria and guidance.

- Evidence that an administering authority is carrying out another pension-related function poorly, such as an unsatisfactory report under section 13(4) of the Public Service Pensions Act 2013, or another periodic reporting mechanism. (Section 13(4) of the 2013 Act requires a person appointed by the Secretary of State to report on whether the actuarial valuation of a fund has been carried out in accordance with Scheme regulations, in a way that is consistent with other authorities' valuations, and so that employer contribution rates are set to ensure the solvency and long term cost efficiency of the fund.)

4.5 If the Secretary of State has some indication to suggest that intervention might be necessary, the draft regulations propose that he may order a further investigation to provide him with the analysis required to make a decision. If additional evidence is sought, draft regulation 8(5) would allow the Secretary of State to carry out such inquiries as he considers appropriate, including seeking advice from external experts if needed. In this circumstance, the administering authority would be obliged to provide any data that was deemed necessary to determine whether intervention is required. The authority would also be invited to participate in the review and would have the opportunity to present evidence in support of its existing or proposed investment strategy.

The process of intervention

4.6 If the Secretary of State is satisfied that an intervention is required, he would then need to determine the appropriate extent of intervention in the authority's investment function. The draft regulations propose to allow the Secretary of State to draw on external advice to determine what the specific intervention should be if necessary.

4.7 Draft regulation 8(2) describes the interventions that the Secretary of State may make. The power has been left intentionally broad to ensure that a tailored and measured course of action is applied, based on the circumstances of each case. For example, in some cases it may be appropriate to apply the intervention just to certain parts of an investment strategy, whereas in particularly concerning cases, more substantial action might be required. The proposed intervention might include, but is not limited to:

- Requiring an administering authority to develop a new investment strategy statement that follows guidance published under draft Regulation 7(1).
- Directing an administering authority to invest all or a portion of its assets in a particular way that more closely adheres to the criteria and guidance, for instance through a pooled vehicle.
- Requiring that the investment functions of the administering authority are exercised by the Secretary of State or his nominee.
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body.

4.8 The Secretary of State will write to the authority outlining the proposed intervention. As a minimum, this proposal will include:

- A detailed explanation of why the Secretary of State is intervening and the evidence used to arrive at their determination.

- A clear description of the proposed intervention and how it will be implemented and monitored.
- The timetable for the intervention, including the period of time until the intervention is formally reviewed.
- The circumstances under which the intervention might be lifted prior to review.

4.9 The authority will then be given time to consider the proposal and present its argument for any changes that it thinks should be made. If, at the end of that period an intervention is issued, any resulting costs, charges and expenses incurred in administering the fund would be met by the pension fund assets.

Review

4.10 As set out above, each intervention will be subject to a formal review period which will be set by the Secretary of State but may coincide with other cyclical events such as the preparation of an annual report or a triennial valuation. At the end of that period, progress will be assessed and the Secretary of State will decide whether to end, modify or maintain the current terms of the intervention, and will notify the authority of the outcome. The authority will also have the opportunity to make representations to the Secretary of State if it feels a different course of action should be followed. Throughout this period of intervention, the authority will be supported to improve its investment function, so that it is well placed to bring the intervention to an end at the first opportunity.

4.11 The Secretary of State's direction will include details about what is required of the authority in order to end the intervention, and how progress will be measured. Progress could, for example, be measured by creating a set of performance indicators to be monitored on an ongoing basis by Government officials, the local pension board, the scheme advisory board, or an independent body. A regime of regular formal reports to the Secretary of State could also be required.

4.12 The draft regulations also allow the Secretary of State to determine that sufficient improvement has been made to end the intervention before the review date. The administering authority may also make representations to the Secretary of State before that date, if it has clear evidence that the prescribed action is no longer appropriate.

Questions

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

Summary of the draft regulations

(1) Citation, commencement and extent

This details the citation and scope of the draft regulations, and gives the date at which they will come into force.

(2) Interpretation

These provisions define terms used in the draft regulations with reference to legislation, and cite the legislation that gives administering authorities the powers that may be impacted by the draft regulations.

(3) Investment

This draft regulation defines what is considered an investment for the purposes of the regulations. This definition includes futures, options, derivatives, limited partnerships and some types of insurance contracts. It also defines who a person with whom a contract of insurance can be entered into is.

(4) Management of a pension fund

This draft regulation lists the monies that an administering authority must credit to its pension fund, including employer and employee contributions, interest, and investment capital and income. It also sets out the administering authority's responsibility to pay benefits entitled to members, and states that, except where prohibited by other regulations, costs of administering the fund can be paid by the fund.

(5) Restriction on power to borrow

This proposed regulation outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.

(6) Separate bank account

The draft regulation states that an administering authority must deposit all pension fund monies in a separate account, and lists those institutions that can act as a deposit taker. It also states that the deposit taker cannot use pension fund account to set-off any other account held by the administering authority or a connected party.

(7) Investment strategy statement

This draft regulation places an obligation on the administering authority to consult on and publish an investment strategy statement, which must be in accordance with guidance from the Secretary of State. The statement should demonstrate that investments will be suitably diversified, and it should outline the administering authority's maximum allocations for different asset classes, as well as their approach to risk and responsible investing.

In many respects, the investment strategy statement replaces the list of restrictions given in Schedule 1 of the 2009 Regulations and enables the criteria to be determined at local level. Schedule 1 of the 2009 Regulations will remain in force until such time that the new investment strategy statements have to be published.

Provision is made for authorities to publish their policy on the extent to which environmental, social and corporate governance factors are taken into account in the selection, retention and realisation of investments.

Separate guidance will be issued by the Secretary of State that will clarify how the Government's recent announcement on boycotts, sanctions and disinvestment will be exercised.

(8) Directions by the Secretary of State

This provision would grant the Secretary of State the power to intervene in the investment function of an administering authority if he is satisfied that the authority is failing to have regard to regulation and guidance. He can also initiate inquiries to determine if an intervention is warranted, and must consult with the authority concerned. Once it is determined that an intervention is needed, the Secretary of State can intervene by directing the authority undertake a broad range of actoins to remedy the situation.

(9) Investment managers

This draft regulation details how an administering authority must appoint external investment managers.

(10) Investments under section 11(1) of the Trustee Investments Act 1961

This draft regulation allows administering authorities to invest in Treasury-approved collective investment schemes.

(11) Consequential amendments

This proposed regulation lists the prior regulations that are amended by the draft amendments.

(12) Revocations and transitional provisions

The draft provision lists the regulations that would be revoked if the draft regulations come into effect. It also proposes transitional arrangements to ensure that the existing regulations governing the investment strategy remain in place until a new investment strategy statement is published by an authority under draft regulation seven. These transitional arrangements would apply for up to six months after the draft regulations came into effect.

Annex A: Members of the Investment Regulation Review Group

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Clifford Sims	Squire Patton Boggs
Dawn Turner	Environment Agency Pension Fund
Geoff Reader	Bedford Pension Fund
Graeme Russell	Greater Gwent Pension Fund
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Department for
Communities and
Local Government

Local Government Pension Scheme: Investment Reform Criteria and Guidance

November 2015
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

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Ministerial Foreword

At the summer Budget 2015, the Chancellor announced our intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance.

We have been clear for some time that the existing arrangements for investment by the Local Government Pension Scheme are in need of reform, and the announcement made plain our expectation that authorities would be ambitious when developing their proposals. The publication of these criteria and their supporting guidance marks a significant milestone on the road to reform, placing authorities in a strong position to take the initiative and drive efficiencies in the Scheme, and ultimately deliver savings for local taxpayers.

The Scheme is currently organised through 89 separate local government administering authorities and a closed Environment Agency scheme, which each manage and invest their assets largely independently. Recognising the potential for greater efficiency in this system, the coalition government first began to consider the opportunity for collaboration in 2013 with a call for evidence. Since then, we have been exploring the opportunities to improve; gathering evidence, testing proposals, and listening to the views of administering authorities and the fund management industry.

The Chancellor's announcement draws on this earlier work and in particular the consultation, *Opportunities for collaboration, cost savings and efficiencies,* published in May 2014 by the coalition government. More than 200 consultation responses and papers were received and analysed, leading to the development of a framework for reform that has administering authorities at its centre. The criteria published today make clear the Government's expectation for ambitious proposals for pooling, and invite authorities to lead the design and implementation of their own pools. The criteria have been shaped and informed by earlier consultations, as well as several conversations with administering authorities and the fund management industry which took place over the summer.

Working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes. The creation of up to six British Wealth Funds, each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth. I know that many authorities have already started to consider who they will work with and how best to achieve the benefits of scale. These early discussions place those authorities on a strong footing to deliver against our criteria, and I look forward to seeing their proposals develop over the coming months.

Marcus Jones

Criteria

1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

1.2 The following criteria set out how administering authorities can deliver against the Government's expectations of pooling assets.

1.3 It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, they should have regard to each of the four criteria, which are designed to be read in conjunction with the supporting guidance that follows. Their submissions should describe:

A. Asset pool(s) that achieve the benefits of scale: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. **Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

As part of their proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.

- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity to invest in infrastructure: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Addressing the criteria

Requirements and Timetable

2.1 Authorities are asked to submit their initial proposals to the Government to LGPSReform@communities.gsi.gov.uk by 19 February 2016. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

2.2 Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

Assessing the proposals against criteria

2.3 The Government will continue to engage with authorities as they develop their proposals for pooling assets over the coming months. The initial submissions will be evaluated against the criteria, with feedback provided to highlight areas that may fall outside of the criteria, or where additional evidence may be required.

2.4 Once submitted, the Government will assess the final proposals against the criteria. A brief report will be provided in response, setting out the extent to which the criteria have been met and highlighting any aspects of the guidance that the Government believes have not been adequately addressed. In the first instance, the Government will work with authorities who do not develop sufficiently ambitious proposals to help them deliver a more cost effective approach to investment that draws on the benefits of scale. Where this is not possible, the Government will consider how else it can drive value for money for taxpayers, including through the use of the "backstop" legislation, should this be in place following the outcome of the consultation described below.

Transitional arrangements

2.5 Plans should be made to transfer assets to the pools as soon as practicable. Analysis commissioned by the Government from PricewaterhouseCoopers (PwC) indicates that, even those pooling mechanisms requiring supporting infrastructure, such as collective investment vehicles, could be established within 18 months. It is expected that liquid assets are transferred into the pools over a relatively short timeframe, beginning from April 2018. It is recognised that illiquid assets are likely to transition over a longer period of time. For the avoidance of doubt, investments with high penalty costs for early exit should not be wound up early on account of the pooling arrangements, but should be transferred across as soon as practicable, taking into account value for money considerations. Any assets that are held outside of the pool should be kept under review to ensure that arrangement continues to provide value for money.

2.6 While authorities will need to be mindful of their developing pooled approach, they should continue to manage both their investment strategies and manager appointments as they do now until the new arrangements are in place. In keeping with the investment regulations, they are still responsible for keeping both under regular review.

Support to develop proposals

2.7 To help authorities develop proposals quickly and efficiently, the Government has made available PwC's detailed technical analysis of the different collective investment vehicles and their tax arrangements at: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance. This paper is provided for information only. It does not represent the view of Government, and authorities should seek professional advice as needed when developing their proposals. Authorities are also strongly encouraged to learn from those who have already begun to develop collective investment vehicles, such as the London Boroughs or Lancashire and the London Pension Fund Authority.

Legislative context

2.8 At the July Budget 2015, the Chancellor also announced the Government's intention to consult on "backstop" legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others. That consultation has now been published and is available on the Government's website at: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme.

2.9 The consultation proposes to introduce a power for the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to guidance published by the Secretary of State. The intervention should be proportionate and subject to both consultation and review.

2.10 The draft regulations include a provision for the Secretary of State to issue guidance. Subject to the outcome of the consultation, authorities would then need to have regard to that guidance when producing their investment strategy. The Government proposes to issue this document as Secretary of State's guidance if the draft regulations come into effect. The guidance will be kept under review and may be updated, for example if the proposals for pooling that come forward are not sufficiently ambitious.

2.11 The consultation also proposes to replace and update the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to make significant investment through pooled vehicles possible.

Supporting guidance

3.1 This guidance is to assist authorities in the design of ambitious proposals for pooling investments and to provide ongoing support as they seek to ensure value for money in the long term. It will be kept under review to ensure that it continues to represent best practice.

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

Headline criterion: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.

3.2 The consultation, *Opportunities for collaboration, cost savings and efficiencies*, set out strong evidence that demonstrated how using collective investment vehicles and pooling investments can deliver substantial savings for the Local Government Pension Scheme without affecting investment performance. Additional advantages to pooling, which should further reduce costs and improve decision making in the long term, include:

- Increasing the range of asset classes to be invested in directly,
- Strengthening the governance arrangements and in-house expertise available to authorities,
- Improving transparency and long-term stewardship, and
- Facilitating better dissemination of best practice and performance data between authorities.

The case for collective investment

3.3 Published in May 2014, the analysis in the Hymans Robertson report evidenced that using collective investment vehicles could deliver savings. In the case of illiquid assets alone, they found that £240m a year could be saved if investments were channelled through a Scheme wide collective investment vehicle rather than the existing "fund of funds" approach.[1]

3.4 A review of the academic analysis available also supports the case for larger investment pools. For example, Dyck and Pomorski's paper, *Is Bigger Better? Size and performance in pension fund management*, established that larger pension funds were able to operate at lower cost than their smaller counterparts, through a combination of

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[1] Hymans Robertson report: *Local Government Pension Scheme structure analysis,* p.3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

improved negotiating power, greater use of in-house management, and more cost effective access to alternative assets like infrastructure.[2]

> A third to a half of the benefits of size come through cost savings realized by larger plans, primarily via internal management. Up to two thirds of the economies come from substantial gains in both gross and net returns on alternatives.

3.5 A number of respondents to the May 2014 consultation also set out the case for larger funds being able to access lower cost investments. London Councils, for example, estimated that savings of £120m a year could be delivered if £24bn was invested through the London collective investment vehicle (CIV), as a result of reduced investment management fees, improved performance, and enhanced efficiency.

3.6 Formal mechanisms of pooling, such as collective investment vehicles, offer additional benefits to alternative arrangements such as procurement frameworks. For example, Hymans Robertson explained that larger asset pools would increase the opportunities for buy and sell transactions to be carried out within the Scheme, reducing the need to go to the market and so minimising transaction costs. Their analysis found that this could reduce transaction costs, which erode the value of assets invested, by £190m a year.[3]

3.7 Pooling investments will also create an opportunity to improve transparency and information sharing amongst authorities. By having a single entity responsible for negotiating with fund managers and reporting performance, authorities can see what they are paying and generating in returns and how it compares with other authorities. Similarly, Lancashire County Pension Fund and the London Pension Fund Authority, who are developing a pool for assets and liabilities, anticipate economies of scale driving improved performance. They have recently estimated that by pooling they can achieve enhanced investment outcomes of £20-£30m a year from their current levels.[4]

Achieving appropriate scale

3.8 The Government expects all administering authorities to pool their investments to achieve economies of scale and the wider benefits of sharing best practice.

3.9 A move to larger asset pools would also be in keeping with international experience. For example, in Ontario, smaller public sector pension funds are being required to come together to form pools of around $50bn Canadian (approximately £30bn at the time the proposal was made). Similarly, Australian pension funds have been consolidating in recent years, where a formal review in 2010 recommended that each MySuper pension fund be required to consider annually whether they have sufficient scale and membership to continue as a separate pension fund.[5]

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[2] Dyck and Pomorski, *Is bigger better? Size and Performance in Pension Plan Management*, pp.14-15
[3] Hymans Robertson report, pp.14-15
[4] Sir Merrick Cockell, writing in the *Pensions Expert* on 30 September 2015
[5] Government Response to the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, Recommendation 1.6,

3.10 The May 2014 consultation sought views on the number of collective investment vehicles to be established. Respondents stressed the importance of balancing the need for scale with local input and practical governance arrangements. It was also argued that while larger asset pools would deliver greater savings, the potential difficulties of successfully investing large volumes of assets in a single asset class, particularly active strategies for listed assets, should also be taken into account. However, while individual managers may restrict the value of assets they are prepared to accept or are able to invest, the selection of a few managers for each asset class would help to mitigate this risk.

3.11 Having reflected on the views expressed in response to the consultation and the experience of pension funds internationally, the Government believes that in almost all cases, fewer, larger assets pools will create the conditions for lower costs and reduce the likelihood of activity being duplicated across the Scheme, for example by minimising pooled vehicle set-up and running costs. It therefore expects authorities to collaborate and invest through no more than six large asset pools, each with at least £25bn of Local Government Pension Scheme assets under management once fully operational.

3.12 However, the Government recognises that there may be a limited number of bespoke circumstances where an alternative arrangement may be more appropriate for a particular asset class or specific investment. As set out below, this may include pooling to invest in illiquid assets like infrastructure, direct holdings in property and locally targeted investments.

Investment in infrastructure and other illiquid or alternative assets

3.13 The Hymans Robertson report highlighted illiquid or alternative assets as an area for significant savings for the Scheme. They found that in 2012-2013, illiquid asset classes like private equity, hedge funds and infrastructure represented just 10% of investments made, but 40% of investment fees. They also demonstrated that changing the way these investments are made, moving away from "fund of funds" to a collective investment vehicle, could save £240m a year.[6]

3.14 The Government expects the pooling of assets to remove some of the obstacles to investing in these asset classes in a cost effective way. A separate criterion has been included on infrastructure, although similar benefits exist for other alternative or illiquid assets, such as private equity, venture capital, debt funds and new forms of alternative business finance. In light of this, authorities should consider how best to access these asset classes in a more cost-effective way. Regionally based pools, such as the London boroughs' collective investment vehicle, would allow authorities to make best use of existing relationships, while a single national pool for infrastructure or illiquid assets would deliver even greater scale and opportunity for efficiency.

3.15 A considerable shift in asset allocation would be needed to develop a pool of £25bn for investment in infrastructure and other illiquid or alternative assets, such as private equity or venture capital. The Government recognises that such a significant movement in

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http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government_response/recommendation_response_chapter_1.htm

[6] Hymans Robertson report, p.24

asset allocation is unlikely in the near term. As such, should authorities elect to develop a single asset pool for illiquid investments or infrastructure, the Government recognises that a value of assets under management less than £25bn might be appropriate.

Investments outside of the pools

3.16 The Government's presumption is that all investments should be made through the pool, but we recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or products tailored to specific liabilities. Authorities may therefore wish to explore whether to retain a small proportion of their existing investments outside of the pool, where this can demonstrate clear value for money. Any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale.

Property

3.17 As of the 31 March 2014, authorities reported that they were investing around 2.5% of their assets in directly held property, with a further 4.1% invested through property investment vehicles.[7] However, the amount invested varies considerably between authorities, with some targeting investment of around 10% of their assets in direct holdings, for example.

3.18 A number of consultation responses stressed the importance of retaining direct ownership of property outside of any pooled arrangement, a view echoed in our discussions with interested parties over the summer. Directly held property is used by some authorities to match a particular part of an authority's liabilities, or to generate regular income. If these assets were then pooled, while the authority would receive the benefits of the pooled properties, there is a risk that this would not match the liability or cash-flow requirements that had underpinned the decision to invest in a particular property.

3.19 In light of the arguments brought forward by authorities and the fund management industry, the Government is prepared to accept that some existing property assets might be more effectively managed directly and not through a pool at present. However, pools should be used if new allocations are made to property, taking advantage of the opportunity to share the costs associated with the identification and management of suitable investments.

3.20 Where authorities invest more than the reported Scheme average of 2.5% in property directly, they should make this clear in their pooling submission.

Addressing the criterion

3.21 When developing their proposals for pooling, authorities should set out:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

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[7] Scheme Advisory Board, Annual Report http://www.lgpsboard.org/index.php/investment-performance-2014

- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making

Headline criterion: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability.

3.22 A number of consultation responses stressed the importance of establishing strong governance arrangements for pools. Securing the right balance between local input and timely, effective decision making was viewed as essential, but also a significant challenge. The management and governance arrangements of each pool will inevitably be defined by the needs of those participating. However, there are some underlying principles that the Government believes should be incorporated.

Maintaining democratic accountability

3.23 The May 2014 consultation was underpinned by the principle that asset allocation should remain with the administering authorities. Consultation respondents were strongly in favour of retaining local asset allocation, noting that each fund has a unique set of participating employers, liabilities, membership and cash-flow profiles, which need to be addressed by an investment strategy tailored to those particular circumstances.

3.24 Respondents also highlighted the transparency and accountability benefits offered by local asset allocation. If councillors are responsible for setting the investment strategy, then local taxpayers, who in part fund the Scheme through employer contributions, have an opportunity to hold their decisions directly to account through local elections. As one consultation response explained:

> The accountability of Members of the employing authorities playing a part in deciding locally how the assets of the Pension Fund are allocated is important. Employer contributions are paid, in the main, by local council tax payers who in turn vote for their local councillors. Those councillors should have the autonomy to make decisions relating to the investment strategy of that Pension Fund.

3.25 The Government agrees that this democratic link is important to the effective running of the Scheme and should not be wholly removed by the pooling of investments. As set out below, determining the investment strategy and setting the strategic asset allocation should remain with individual authorities. When developing a pool, authorities should ensure that there remains a clear link through the governance structure adopted, between the pool and the pensions committee. For example, this might take the form of a shareholding in the pool for the authority, which is exercised by a member of the pension committee.

Strategic asset allocation

3.26 Establishing the right investment strategy and strategic asset allocation is crucial to optimising performance. It is increasingly accepted that strategic asset allocation is one of the main drivers of investment returns, having far greater an impact than implementation decisions such as manager selection.

3.27 The majority of respondents to the May 2014 consultation supported local asset allocation, but discussions with interested parties over the summer have highlighted a lack of consensus as to what constitutes strategic asset allocation. Definitions have ranged from selecting high level asset classes such as the proportions in bonds, equities and property; to developing a detailed strategy setting out the extent and types of investments in each of the different equity or bond markets.

3.28 Informed by these discussions with fund managers and administering authorities, the Government believes that pension committees should continue to set the balance between investment in bonds and equities, recognising their authority's specific liability and cash-flow forecasts. Beyond this, it will be for each pool to determine which aspects of asset allocation are undertaken by the pool and which by the administering authority, having considered how best to structure decision making in order to deliver value for money. Authorities will need to consider the additional benefits of centralising decision making to better exploit synergies with other participating authorities' allocations and further drive economies of scale. When setting out their asset allocation authorities should be as transparent as possible, for example making clear the underlying asset class sought when using pooled funds.

Effective and timely decision making

3.29 Authorities should draw a distinction between locally setting the strategic asset allocation and centrally determining how that strategy is implemented. The Government expects that implementation of the investment strategy will be delegated to officers or the pool, in order to make the most of the benefits of scale and react efficiently to changing market conditions. As one consultation response suggested:

> We believe that high-level decisions about Fund objectives, strategy and allocation are best made by individual Funds considering their better knowledge of their liabilities, risk and return objectives and cash flow requirements. More detailed asset allocation decisions should however be centralised to achieve better economies of scale, and to allow more specialist management.

3.30 Authorities will need to revisit and review their decision-making processes as part of their move towards pools. For example, in order to maximise savings, manager selection will need to be undertaken at the pool level. Centralising manager selection would allow the pool to rationalise the number of managers used for a particular asset class. The resulting larger mandates should then allow the pool to negotiate lower investment fees. This approach would also give local councillors more time to dedicate to the fundamental issue of setting the overarching strategy.

3.31 A number of authorities have already delegated hiring and dismissing mangers to a sub-committee comprised predominantly of officers. This has allowed these authorities to react more quickly to changes in the market, taking advantage of opportunities as they arise. Similarly, delegating implementation decisions to the pool will allow the participating authorities to benefit not only from more streamlined decision making, but also from effecting those decisions at scale.

3.32 The creation of pools will necessarily lead to a review of decision making within each authority. The Government expects to see greater consolidation where possible. However, as a minimum, we would expect to see the selection of external fund managers and the implementation of the investment strategy to be carried out at the pooled level.

Responsible investment and effective stewardship

3.33 In June 2011, the Government invited Professor John Kay to conduct a review into UK equity markets and long-term decision making. The Kay Review considered how well equity markets were achieving their core purposes: to enhance the performance of UK companies and to enable savers to benefit from the activity of these businesses through returns to direct and indirect ownership of shares in UK companies. The review identified that short-termism is a problem in UK equity markets.[8]

3.34 Professor Kay recommended that Company directors, asset managers and asset holders adopt measures to promote both stewardship and long-term decision making. In particular, he stressed that 'asset managers can contribute more to the performance of British business (and in consequence to overall returns to their savers) through greater involvement with the companies in which they invest.'[9] He concludes that adopting such responsible investment practices will prove beneficial for investors and markets alike.

3.35 In practice, responsible investment could involve making investment decisions based on the long term, as well as playing an active role in corporate governance by exercising shareholder voting rights. Administering authorities will want to consider the findings of the Kay Review when developing their proposals, including what governance procedures and mechanisms would be needed to facilitate long term responsible investing and stewardship through a pool. The UK Stewardship Code, published by the Financial Reporting Council, also provides authorities with guidance on good practice in terms of monitoring, and engaging with, the companies in which they invest.

Enacting an environmental, social and corporate governance policy

3.36 The investment regulations currently require authorities to set out within the statement of investment principles the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. The draft regulations published alongside this document do not propose to amend this principle.

3.37 These policies should be developed in the context of the liability profile of the Scheme, and should enhance the authority's ability to manage down any funding deficit and ensure that pensions can be paid when due. Indeed, environmental, social and

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[8] *The Kay Review of UK Equity Markets and Long-Term Decision Making*, pp. 9-10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf

[9] The Kay Review, p.12

corporate governance policies provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

3.38 As the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, the law generally is clear that schemes should consider any factors financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term, dependent on the time horizon over which their liabilities arise.

3.39 The Law Commission also clarified that, although schemes should make the pursuit of a financial return their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

3.40 The Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy.

3.41 Authorities will need to determine how their individual investment policies will be reflected in the pool. They should also consider how pooling could facilitate implementation of their environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area.

Addressing the criterion

3.42 When developing their proposals for pooling, authorities will need to set out:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any ethical, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. Reduced costs and excellent value for money

Headline criterion: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

3.43 As set out in the July Budget 2015 announcement, the Government wants to see authorities bring forward proposals to reform the way their pension scheme investments are made to deliver long-term savings for local taxpayers. Authorities are invited to consider how they might best deliver value for money, minimising fees while maximising overall investment returns.

Scope for savings

3.44 Pooling investments offers an opportunity to share knowledge and reduce external investment management fees, as the fund manager is able to treat the authorities as a single client. There is already a considerable body of evidence in the public domain to support authorities in developing their proposals for investment reform and this continues to grow with new initiatives emerging from local authorities:

- **Passive management:** Hymans Robertson showed that annual fee savings of £230m could be found by moving from active to passive management of listed assets like bonds and equities, without affecting the Scheme's overall return.[10]
- Their analysis suggested that since passive management typically results in fewer shares being traded, turnover costs, which are a drag on the performance achieved through active management, might be reduced by £190m a year.[11]
- **Collective investment:** Hymans Robertson also demonstrated that £240m a year could be saved by using a collective investment vehicle instead of "fund of funds" for illiquid assets like infrastructure, hedge funds and private equity.[12]
- Similarly, the London Pension Fund Authority has estimated that they have reduced their external manager fees by 75% by bringing equity investments in-house, and hope to expand this considerably as part of their collective investment vehicle with Lancashire County Pension Fund.[13]

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[10] Hymans Robertson report, p. 12
[11] Hymans Robertson report, pp. 14-15
[12] Hymans Robertson report, p. 3
[13] Chris Rule, LPFA Chief Investment Officer, reported in *Pension Expert* on 1 October 2015

- **Sharing services and procurement costs:** The National Procurement Framework has also helped authorities to address some of the other costs associated with investment, such as legal and custodian fees, reporting measurable savings of £16m so far.[14]

3.45 As Hymans Robertson's analysis shows, just tackling the use of "fund of funds" for illiquid assets like infrastructure could save around £240m a year, with clear opportunities to go further. It is in this context that the Government is encouraging authorities to bring forward their proposals for collaboration and cost savings. Although a particular savings target has not been set, the Government does expect authorities to be ambitious in their pursuit of economies of scale and value for money.

In-house management

3.46 Some authorities manage all or the majority of their assets internally and so can already show very low management costs. In these cases, a move to a collective investment vehicle with external fund managers is unlikely to deliver cost savings from investment fees alone. However, there are wider benefits of collaboration which authorities with in-house teams should consider when developing their proposals for pooling. A pool of internally managed assets could lead to further reductions in costs, for example by sharing staff, research and due diligence checks; it may improve access to staff with stronger expertise in particular asset classes; and could introduce greater resilience in staff recruitment, retention and succession planning. Alternatively, newly created pools might wish to work with existing in-house teams to build up expertise and take advantage of their lower running costs.

Active and passive management

3.47 The May 2014 consultation considered the use of active and passive management by the Local Government Pension Scheme. Active management attempts to select fund managers who actively choose a portfolio of assets in order to deliver a return against a specific investment target. In practice, this is often used to try and outperform a benchmark, for that class of assets over a specific period. In contrast, passive management tracks a market and aims to deliver a return in line with that market.

3.48 The consultation demonstrated that when considered in aggregate, the Scheme had been achieving a market return over the last ten years in each of the main equity markets. This suggested that collectively the Scheme could have delivered savings by using less costly passive management for listed assets like bonds and equities, without affecting overall performance. While the majority of consultation responses agreed that there was a role for passive management in a balanced portfolio, most also argued that authorities should retain the use of active management where they felt it would deliver higher net returns.

3.49 In response to that consultation, the Government has now invited authorities to bring forward proposals for pooling investments to deliver economies of scale. The extent to which passive management is used will remain a decision for each authority or pool,

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[14] National LGPS Frameworks website, http://www.nationallgpsframeworks.org/national-lgps-frameworks-win-lgc-investment-award

based on their investment strategy, ongoing performance and ability to negotiate lower fees with fund managers. However, in light of the evidence set out in the Hymans Robertson report and the May 2014 consultation, authorities are encouraged to keep their balance of active and passive management under review to ensure they are delivering value for money. For example, should their net returns compare poorly against the index in a particular asset class over the longer term, authorities should consider whether they are still securing value for money for taxpayers and Scheme members.

3.50 When determining how to measure performance, authorities are encouraged to consider setting targets for active managers that are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

Improving the transparency of costs

3.51 In addition to the fees paid to asset managers, there are considerable hidden costs of investment that are difficult to identify and so often go unreported by investors. In the case of the Local Government Pension Scheme, Hymans Robertson showed that investment costs in 2012-13 were at least £790m a year, in contrast to the £409m reported by the authorities.[15] Even the £790m understated the total investment costs as it excluded performance fees on alternative assets such as private equity and hedge funds (it included performance fees on traditional assets) and turnover costs (investment performance figures include the impact of turnover costs).

3.52 To really drive savings within the Scheme, it is essential that these hidden costs are better understood and reported as transparently as possible. Although many of these costs are not paid out in cash, they do erode the value of the assets available for investment and so should also be scrutinised and the opportunities for savings explored.

3.53 The Chartered Institute of Public Finance and Accountancy (CIPFA) has already made some changes to their guidance, Accounting for Local Government Pension Scheme management costs 2014, to encourage authorities to explore these costs and report some through a note to the accounts. For example, these include performance fees and management fees on pools deducted at source. Authorities should have regard to this guidance and ensure that they are reporting costs as transparently as possible.

3.54 In addition, the Scheme Advisory Board is commissioning advice to help authorities more accurately assess their transparent and hidden investment costs. Once available, authorities should take full advantage of this analysis when developing their proposals.

Addressing the criterion

3.55 As set out above, there is a clear opportunity for authorities to collaborate to deliver hundreds of millions in savings in the medium term. Although there is no overall savings target for the Scheme, the Government expects authorities to take full advantage of the benefits of pooling to reduce costs while maintaining performance.

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[15] Hymans Robertson report, pp.10-11

3.56 To support the delivery of savings authorities bringing forward proposals are asked to set out their current investment costs in detail, and demonstrate how these will be reduced over time and the savings forecast. Where possible, costs should be reported back to 2012-2013 so that any cost reductions already achieved as a result of procurement frameworks and early fee negotiations are transparently captured.

3.57 Authorities are encouraged to provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity and capability to invest in infrastructure

Headline criterion: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

3.58 Investment in infrastructure is increasingly being seen as a suitable option for pension funds, particularly amongst larger organisations. This may in part be the result of the typically long term nature of these investments, which may offer a useful match to the long term liabilities held by pension funds.

International experience

3.59 Multiple large international pension funds are investing a significant proportion of their assets in infrastructure. A recent OECD report, which analysed a sample of global pension funds as at 2012, showed that some Canadian and Australian funds (with total assets of approximately £35-40bn in 2014 terms) were investing up to 10-15% in this asset class.[16] The report also noted that those funds with the largest infrastructure allocations were investing directly, and that such investment was the result of the build up of sector-specific knowledge, expertise and resources.[17] This experience might be demonstrated through an organisation's ability to manage large projects, as well as the associated risk.

3.60 Figures published by the Scheme Advisory Board for the 2013 Annual Report show that around £550m, or 0.3%, of the Scheme's total assets of £180bn was invested in infrastructure.[18] This falls some way behind other large pension funds that have elected to invest in this area, such as those noted above and the Ontario Teachers Pension Plan which invested 6.1% according to the same 2014 report.

Creating the opportunity

3.61 The Scheme's current structure, where assets are locked into 90 separate funds, reduces scale and makes significant direct infrastructure investment more difficult for administering authorities. As a result, authorities may determine that they are unable to invest in infrastructure, or may invest indirectly, through the "fund of funds" structure. Such arrangements are expensive, as the Hymans Robertson report demonstrated and this paper sets out in paragraph 3.13.

3.62 Developing larger investment pools of at least £25bn will make it easier to develop or acquire improved capacity and capability to invest in infrastructure. In so doing, it should be possible to reduce the costs associated with investment in this area. This is likely to be the case particularly if authorities pool their infrastructure investment nationally, where the

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[16] OECD, *Annual Survey of Large Pension Funds: report on pension funds' long-term investments*, p.32, available at: http://www.oecd.org/daf/fin/private-pensions/LargestPensionFunds2012Survey.pdf
[17] OECD report, p.14
[18] Scheme Advisory Board annual report http://www.lgpsboard.org/index.php/scheme-investments

resultant scale may allow them to buy-in or build-up in-house expertise in relevant areas, such as project and risk management.

3.63 In considering such investment, administering authorities might want to reflect on the wide range of assets that might be explored, such as railway, road or other transport facilities; utilities services like water and gas infrastructure; health, educational, court or prison facilities, and housing supply. Authorities should also examine the benefits of both:

- Greenfield infrastructure – projects involving the construction of brand new infrastructure, such as a new road or motorway junction to unlock a housing development, or the recent investment of £25m by the Greater Manchester Pension Fund to unlock new sites and build 240 houses; and
- Brownfield infrastructure – investing in pre-existing infrastructure projects, such as taking over the running of (or the construction of a new terminal building at) an airport.

3.64 As set out above, investment in infrastructure represents a viable investment for pension funds, offering long term returns to match their liabilities. Authorities will need to make their investments based on an assessment of risk, return and fit with investment strategy. However, the creation of large pools will make greater investment in infrastructure a more realistic prospect, opening up new opportunities to develop or buy-in the capacity and capability required.

3.65 In developing their proposals for pooling, authorities should take the opportunity to review their asset allocation decisions and consider how they can be more ambitious in their infrastructure investment. The Government believes that authorities can play a leading role in UK infrastructure and driving local growth, and encourages authorities to compare themselves against the example set by the leading global pension fund investors in their approach to allocating assets in this area.

Addressing the criterion

3.66 Authorities should identify their current allocation to infrastructure, and consider how the creation of up to six pools might facilitate greater investment in this area. When developing proposals, authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through fund, or “fund of funds”.
- How they might develop or acquire the capability and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or “fund of funds” arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

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18 February 2016

Dear Chris,

Local Government Pension Scheme: Investment Reform Criteria and Guidance (DCLG, November 2015)

1. This response to the above criteria and guidance is sent on behalf of London LGPS CIV Limited (the "**London CIV**") and the 31 London local authorities (the "**boroughs**", listed at Attachment 1 for reference) that are currently active participants in establishing the Collective Investment Vehicle arrangements (the "**CIV**").

2. We note that the government requires all LGPS Administering Authorities to respond, collectively and/or individually, by 19 February 2016. We also note that this initial response should include a commitment to pooling and a description of the progress made towards that outcome. A refined and completed submission is required, and will be provided by London CIV, by 15 July 2016.

3. London Councils' Leaders' Committee had the foresight in 2012 to commission London Councils to facilitate work looking at what might be done to drive down the cost of pension's investment through greater collaboration. Since then the boroughs and London Councils have been at the forefront of working through the detail and laying the ground for others that are now starting to follow in our footsteps.

4. The CIV has taken two years to implement (facilitated by London Councils, for and on behalf of the boroughs), but is now established and operational. London CIV is fully authorised by the FCA as an Alternative Investment Fund Manager ("**AIFM**") with permission to operate a UK based Authorised Contractual Scheme fund (the "**ACS Fund**"). The ACS Fund, which is tax transparent in the UK and benefits from international tax treaties in other jurisdictions, is structured as an umbrella fund with a range of sub-funds providing access, over time, to the full range of asset classes that the boroughs require to implement their investment strategies.

5. The first sub-fund has been opened, an active global equities fund, and three authorities are the initial seed investors with £500m of assets transferred in on 2 December 2015. A further eight sub-funds, comprising a mix of active and passive equity funds, are being opened over the coming months, by the end of which it is anticipated that around £6 billion of assets will have been migrated into the ACS Fund delivering fee savings for the investing boroughs of some £3 million per annum.

6. London CIV's ambition is to be…

the investment vehicle of choice for Local Authority Pension Funds, through successful collaboration and delivery of compelling performance.

7. In summary, the key achievements we aim to deliver between now and 2020 are:

- **At least £23 billion of assets under management;**
- **Annual fund management savings rising to more than £30 million per annum;**
- **Greater access to and investment in infrastructure;**
- **Increased fund management industry influence;**
- **Wider benefits of collaboration and knowledge sharing;**

8. Turning to the specifics of the four criteria:

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

9. In consideration of the government's expectation that proposals will demonstrate commitment and be ambitious, it would seem clear that with 31 of the 33 London local authorities actively engaged in the development of the CIV such commitment and ambition is amply demonstrated.

10. The 31 boroughs participating at this time in the London CIV have assets under management, at 31 March 2015, totalling £27.6 billion. If all London LGPS funds were to participate, which it is hoped they will, total assets would increase to £29.1 billion. Clearly investment markets over the period since 31 March 2015 have been volatile and therefore assets may fall short of the above numbers. Nonetheless, if it is assumed that at least 90 per cent of borough assets will eventually be invested through the CIV (recognising that boroughs may wish to make the case for up to 10 per cent of their assets to remain outside of the CIV) then the government's threshold of each pool having assets of at least £25 billion will be met.

11. To date development of the CIV and the ACS Fund has been based on a three phase strategy as described below. This strategy reflects the principles that have been adopted to steer implementation (see Attachment 2) and the voluntary nature of participation, however it is recognised that the government's criteria and guidance have significantly changed the environment which has led to the strategy coming under review by London CIV's Board and the boroughs.

12. Despite this, London CIV and the boroughs still believe that individual boroughs should have the choice and flexibility to invest through the CIV or not, putting the onus on the CIV to demonstrate and prove its value through compelling performance, but allowing boroughs to

maintain investments outside of the CIV where they have specific needs that are not available through the Fund.

13. It should be noted that, at this stage, sub-funds will either be invested into 3rd party pooled funds or will be segregated funds with fund management being delegated to 3rd party Investment Managers ("**IM**"). However, London CIV is fully authorised to operate in-house fund management and this option will be explored at a later stage to assess whether it would deliver additional efficiencies and performance.

Phase 1 – Implementation and fund launch

14. Phase 1 is being delivered through what has become known as the "commonality" strategy. This broadly involves seeking to aggregate borough investments where two or more boroughs are invested with the same IM in the same or a very similar mandate, the aim being to increase efficiency and drive down cost.

15. The commonality strategy is a pragmatic approach that quickly delivers scale benefits for the boroughs and fee income for London CIV to cover operating costs.

16. Phase 1 is the prime focus of activity in terms of fund opening through the first half of 2016.

17. Implementation of the strategy began with the analysis of investment data gathered from across the boroughs in 2014, the aim of which was to discover which IMs the boroughs were invested through, in what asset classes and the underlying mandate strategies. This analysis showed that the 33 funds had holdings with close to 90 IMs through around 250 separate mandates. It also showed that while there was significant commonality in some asset classes (e.g. passive equity) other classes (e.g. fixed income) showed a high degree of dispersion.

18. Early discussions were held with 14 IMs where commonality could be seen, but over time, as the detail was explored, all but four decided to drop out of the process or were discounted. There were several influencing factors for this, the most prevalent of which was capacity constraint, but also included an unwillingness to reduce fees, especially for those IMs that have a 'most favoured nation' clause in their mandates.

19. In summary, the launch phase will deliver nine sub-funds:

- 2 x UK passive equity
- 2 x World Developed ex UK passive equity
- 2 x Emerging Markets passive equity
- 1 x Diversified Growth Fund (hard closed but nonetheless delivering lower fees for the boroughs currently invested)
- 2 x Global active equity

20. In aggregate, the Phase I sub-funds will account for £6.1bn, or around 23% of the boroughs' total assets under management and will involve 20 of the 31 participating authorities.

21. Total fee savings are estimated to be a minimum of £2.8 million per annum (simply through reduced IM Annual Management Charges) but could be £3 million or more per annum based

on assumptions about additional benefit derived from the tax efficient nature of the ACS Fund structure. These fee savings will not be spread equally across all the boroughs and this is largely influenced by each borough's current fee position – some boroughs have negotiated better fees than others at this point.

22. It should be noted that since passively managed equities generally have low fee scales, the ratio of fee savings to assets under management ("**AUM**") will increase as the more 'alternative' investments such as property and private equity are brought onto the fund.

23. In addition to the fee charged by each IM the London CIV will also apply a fee to each sub-fund as part of the company's cost recovery. These charges are applied at a rate appropriate to the nature of each sub-fund and range from 0.005% for the UK passive equity funds to 0.025% for the active funds.

Phase 2 – Establishing London CIV and developing the ACS Fund

24. The strategy for Phase 2, which has already commenced but with implementation starting in 2016-17, falls into two categories:

    i. Revisiting the Phase I 'commonality' strategy with those IMs that had early discussions but did not progress; and

    ii. Beginning the process of developing the fund with new manager selections in new asset classes.

25. In addition, the original nine launch sub-funds will be opened to investment from 'new' investors enabling any of the 11 boroughs (and indeed any other LGPS Fund) not included in the launch phase to transition assets from their current holdings should they wish to.

26. Attachment 3 presents analysis of the boroughs' current allocation by asset class, and from this it can be seen that the major asset classes by AUM are equities (active and passive), fixed income (active and passive) and multi-asset.

27. Category (i) will essentially follow the same process as was described in Phase I and will be applied to four Multi-Asset managers and, subject to on-going discussions with IMs and potentially one further passive equity manager.

28. The Multi-Asset products are significantly heterogeneous, and therefore it is sensible to present a fairly wide range of choice to the boroughs so that they can select a strategy which fits their particular risk appetite and investment strategy.

29. Category (ii) is driven by analysis of the borough's current holdings and the need to build AUM to deliver fee income that supports London CIV's operating costs. By reference to Attachment 3 it is clear that the focus should be on targeting the remainder of the passive and active equity assets and opening initial opportunities for Fixed Income sub-funds.

30. Passive Fixed Income mandates will be targeted in 2Q 2016-17. Earlier data collected from the boroughs suggests that the Fixed Income asset class has little in the way of commonality and conviction, so on current projections there may be approximately £500 million being transitioned each for Active and Passive. However, the active fixed income mandates are

likely to require more intensive search and selection, and therefore the bulk of the fixed income mandates will fall into the Phase 3 category (below).

31. It is anticipated that every participating borough will have opportunities to migrate to the CIV by March 2017.

32. As currently planned Phase 2 will conclude by March 2018. In terms of AUM, the end of Phase 2 will deliver an estimated £19 billion or 70 per cent of borough assets. However, the government should note that the opening of sub-funds is complex and time consuming and growth at that pace cannot be guaranteed.

Phase 3 – Business as Usual ("**BAU**")

33. BAU will be focussed initially on a continuation of developing the fund's offering and then its ongoing maintenance and enhancement. This phase will include:

    i. Opening of new asset classes (e.g. infrastructure);

    ii. The ongoing process of monitoring sub-funds, closing poor performers and opening new offerings; and

    iii. Development of the CIV's role in 'thought leadership' and being seen as a trusted source of support and advice for the boroughs.

34. Phase 3 could be seen as starting from April 2018 (i.e. the end of Phase 2), but in reality the transition from Phase 2 to Phase 3 is unlikely to be linear and there will be an overlap.

35. The successful migration of the boroughs' fixed income mandates together with the other mandates as detailed above, will lead to the asset base of London CIV increasing to an estimated £23 billion, or 86 per cent of total borough assets, by the end of 2019-20. Growth to the £25 billion threshold would be expected to happen over the following two or three years as more alternative asset classes are addressed.

36. Based on the fact that we are seeing fund management costs dropping by as much as 50 per cent (and in some cases more), and that we expect to have more negotiating power as the Fund develops, we expect to be delivering in the region of £30 million of fund management savings by 2020 (based on current fund management costs of £109 million). In addition we will be delivering other savings and benefits through greater tax efficiency, reduced procurement costs and lower fees for, for example, custody and brokerage.

37. In considering the extent to which boroughs may hold assets outside of the CIV, it can be seen from Attachment 3 that around 10 per cent of assets are held in property, private equity and infrastructure and it is in these asset classes that one would expect to find long term investments that may take several years to mature before transition to the CIV. It is of course for individual boroughs to make the case to government for holding assets outside of the CIV.

38. London CIV is focussed on delivering value for money for the participating boroughs and as such resources are tight and many tasks and activities are outsourced to 3rd parties. London CIV's current organisational structure is shown at Attachment 4. This in-house resource is augmented by expertise provided by members of the IAC (see paragraph 38) and the use of

3rd party providers including the Custodian, the Depositary, the Operating Reporting Partner, and Investment Consultants and Advisors.

39. Over time the level of resource will increase and more activity will be brought in-house, which might include in-house fund management. The company's business strategy is being reviewed at this time and more detail will be provided in the July submission.

B. Strong Governance and decision making:

40. Attachment 4 provides a diagram of the core governance structures for the CIV. Strong governance and mechanisms to ensure that participating boroughs have the assurance that they need to be confident that their investments are being managed appropriately by the pool have been critical factors in the design of this structure.

41. Taking each of the core governance structures in turn; the participating local authorities (London boroughs and potentially other non-London funds) continue to be responsible for their investment strategy and the asset allocation decisions to deliver it. As the CIV's ACS Fund develops the expectation would be that more and more of the underlying investments would be made through the CIV. Each participating borough is an equal shareholder in London CIV and a signatory to the Shareholders Agreement that sets out the relationship between and the responsibilities of each shareholder.

42. Representing the borough level, a Sectoral Joint Committee ("**PSJC**") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the boroughs as shareholders in London CIV. The committee meets most often in its first guise and has met five times since December 2014 to provide oversight and guidance as the CIV has been established. Going forward the PSJC will be the channel through which borough views about how the ACS Fund might be developed will be passed to London CIV and as a general reporting route for London CIV back to the boroughs. The committee's Terms of Reference are provided as Attachment 5. Agendas and minutes of the PSJC are published on London Councils'' website and its meetings are held in public.

43. Alongside the PSJC an Investment Advisory Committee ("**IAC**") has been established. This committee is comprised of representative borough Treasurers and Pension Fund Managers, and provides Officer level input to the oversight and development of London CIV.

44. These two committees ensure that the links with local democratic accountability for the London CIV are maintained.

45. The CIV itself is comprised of two parts, the operating company (London LGPS CIV Limited) and the ACS Fund, this structure is described in brief at paragraph 4 above.

46. As government will be aware, London CIV already has dedicated resources working for the company with a Chief Executive, Investment Oversight Director, and Chief Operating Officer, as well as support staff. In addition the Company has a highly respected Non-Executive Board in place, meeting the requirements for strong governance arrangements to be in place.

47. As an AIFM London CIV must comply with the Alternative Investment Manager Directive ("**AIFMD**") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("**FCA**"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of it operations, including fund management.

48. In addition to the oversight and scrutiny arrangements described above, it is a requirement for London CIV to engage a Depositary to provide oversight of the Fund Custodian and London CIV as the fund operator. Northern Trust have been contracted to provide this service, which is effectively there to provide additional assurance and protection to the boroughs as investors.

49. As described above the participating boroughs will be closely involved in the development of the ACS Fund, including in the decisions about what new sub-funds might opened and in what asset class. The IAC is also expected to be involved in the search and selection process for IMs. However, the final due diligence consideration and appointment of IMs falls under the regulatory responsibilities of London CIV through its Investment Oversight Committee and Board. Boroughs will decide which of the sub-funds they wish to invest in to best deliver their investment strategy.

50. The processes for London CIV to report on fund performance to the investing boroughs are still being developed, but in broad terms will include regular written and verbal reports to the PSJC, the IAC and to individual borough Pension Committees as required. However, the development of final arrangements for reporting is likely to be an iterative process to ensure that they are efficient and fit for purpose for both the investors and for London CIV. It is the intention that every borough will receive performance reporting across every sub-fund (regardless of whether they are invested in that sub-fund or not), in this way boroughs will be able to easily compare performance of sub-funds they are invested in with other similar sub-funds.

51. With regards to providing assurance on environmental, social and governance issues and how this will be handled by the CIV, this has already been the subject of consideration by the company and the PSJC with an agreement that the London CIV should be a separate member of the Local Authority Pension Fund Forum (the "**LAPFF**") – a body which represents the majority of views of local authority pension funds on these matters. Discussions have commenced with the LAPFF to put this arrangement in place.

52. London CIV is also currently considering how it will meet the requirements of the Stewardship Code and anticipates being a signatory to this in due course.

53. The IAC has also established a working group to look at the whole issue of ESG matters and how funds can best access this through the London CIV and how to assist funds in acting as long term responsible shareholders.

54. For individual funds, they will of course need to maintain their own policies in respect of ESG matters and this will comprise part of their new Investment Strategy Statement which replaces the Statement of Investment Principles later this year.

C. Reduced costs and excellent value for money:

55. London CIV anticipates significant fee savings arising over time, from scale and increased negotiating power with managers. As described above, Phase 1 of the Fund development is expected to deliver around £3 million of savings p.a. for the 20 boroughs that will be invested. It should be recognised that the first phase represents relatively low cost asset classes with the majority being in passive asset classes, it is inevitable that as more complex and expensive assets are added then fee savings will significantly increase. To date London CIV has seen fee reductions of up 50 per cent.

56. In addition to the anticipated fee savings, we also expect to accrue significant advantages from the tax transparent nature of the ACS structure and savings across the entire spectrum of investment costs, including reduced custodian fees, lower procurement costs etc. In 2012 the Society of London Treasurers in 2012 had the foresight to commission a report from PWC that estimated that an additional £85 million could be derived in terms of improved investment returns by delivering superior performance. Whilst clearly this figure is open to some debate, it does give an indication of what might be achieved for funds through greater collaboration and delivering improved performance overall.

57. London CIV will be working with the participating boroughs to gather the data necessary to provide the requested assessment of investment costs and fees as at 31 March 2013, the current position and estimated savings over the next 15 years. This information will be provided in the July submission.

58. Transition costs are complex and extremely difficult to estimate in isolation from the case by case detail of each specific transition. Costs in this area can accrue from fees (e.g. transition managers, custodians and tax advisors) and transaction costs (e.g. the cost of buying and selling assets, including unavoidable tax in some jurisdictions). London CIV is working hard to bear down on transition costs and will continue to do so. It is anticipated that more detail can be provided in the July submission.

59. In addition to reduced costs and fees the wider governance benefits from information sharing and improved access to expertise at all levels should not under estimated as significant advantages from collaboration.

60. LGPS funds clearly understand the need to look at the risk adjusted returns over the longer time frame and that it is the net value-add that impacts on the fund's ability to pay pensions over the longer term. It is clear that avoiding knee jerk reactions when managers experience periods of underperformance is an important factor and we are pleased to see the government has recognised this in asking for funds to consider what is achieved over an appropriate long term period, rather than solely focusing on short term performance comparisons. London CIV is firmly of the view that 'churn' of IMs will be reduced through the CIV as part of the enhanced governance arrangements and knowledge sharing that is being established.

D. An improved capacity to invest in infrastructure:

61. One of the big opportunities from creating the CIV is the potential to use the benefit of scale to enable the boroughs to access infrastructure as an asset class. London CIV and the

boroughs have begun to consider infrastructure as an asset class and what different and innovative approaches might be taken to deliver benefits both in London and nationally. Detailed proposals are likely to fall towards the end of Phase 2 of our development. Early discussions have been had with a number of IMs in this area and also with the Pensions Infrastructure Platform.

62. As can be seen from Attachment 3, LGPS funds across London currently have little or no assets invested in infrastructure. Most boroughs have limited resources to dedicate to considering this complex asset class and experience shows that there is a general lack of suitable investments at the scale that the average borough would wish to invest and with the required risk/return profile. However, there appears to be no evidence that any London LGPS fund is strategically opposed to infrastructure investment as an asset class per se.

63. Nonetheless, pooling of each borough's allocation to infrastructure and opening the opportunity for those that currently have no allocation will generate a greater capacity to invest, enabling the CIV to look at opportunities either direct or as co-investments that would not have been open to individual funds, often simply because of the cost of entry.

64. Determining the proportion of assets to allocate to infrastructure will be a decision for each investor to take as part of their Asset Allocation strategy. These decisions will depend on the opportunities that can be made available and on the level of risk and reward generated from those opportunities when compared against risk/reward in other asset classes.

In conclusion

65. London CIV believes that the work that has been undertaken by those London Boroughs that have contributed to the development of the CIV demonstrates a clear commitment to the principles of collaboration and collectivisation. The creation of London CIV has been instrumental in driving forward the investment reform agenda in London. The scale of asset pooling that we anticipate will be achieved in London is sufficiently large for the London CIV to meet the criteria for scale over the timescales being required. We believe that we have developed both the appropriate structure for London funds and that the governance structures in place mean that local accountability and decision making on asset allocation are retained.

66. Consequently we strongly believe given the willingness shown and progress made by the London funds over the last 2 years means that we are able to meet the criteria to be confirmed as one of the final pools of assets under the government's reform agenda.

67. We recognise that further work is required, but that London CIV and the participating boroughs are in a strong position to be able to come forward with comprehensive proposals to meet the government's criteria and guidance when submitting these in July 2016.

68. Despite the scale, complexity and untested nature of the London boroughs collaborations, the London CIV has successfully navigated these challenges and is now well on the way to achieving the government's four criteria of scale, costs savings, governance and access to infrastructure

Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations2009 (the "Regulations")

69. It is recognised that in application the Regulations do not apply directly to London CIV but do determine the way that the boroughs manage and invest their funds and therefore have an influence over how London CIV and its investors will operate in the future. As such London CIV expects that each borough will respond to the consultation and this response only covers issues that relate, or could relate to London CIV specifically.

70. London CIV is broadly supportive of relaxing the regulatory framework for LGPS investments and the move to a 'prudent' basis, but as a principle does not support wide ranging powers for the Secretary of State to intervene. This concern about powers of intervention is especially true in circumstances where the guidance setting out how the power will be used has not been published.

71. In the context of LGPS Funds being required to invest through pooling arrangements (e.g. London CIV) it is not clear whether the Funds would be required to apply Section 9 of the Regulations when deciding to invest through a pool. London CIV is structured as a Private Limited Company (wholly owned by the participating authorities) and is authorised by the FCA as an AIFM with permission to operate an ACS, effectively this means that London CIV is an Investment Manager. London CIV believes that 'recognised' pools should be explicitly addressed in the regulations to avoid confusion, prevent unnecessary bureaucracy and to give reassurance to individual LGPS Funds – especially in this period of change.

72. In addition, London CIV is of the view that care should be taken over the wording of Section 7(4) which, as currently drafted, may have the effect of preventing LGPS Funds from investing in pools where Members or officers of the authority have decision making roles in those pools as a part owner of that pool. Again specific measures relating to recognised pools would provide clarity.

73. On the question of the use of derivatives; it should be recognised that derivatives can be use d to control outcomes in many ways, it is not just about risk per se. Derivatives can be used to produce more certain outcomes, be more efficient as an instrument to use as an investment than an actual asset due to increased liquidity and visibility of pricing; be more liquid than some real assets might be; and allow investment managers to reflect macro-economic views without having to churn large parts of the portfolio. Although controlling these outcomes is all about balancing risk and return it is not just risk management – there is a clear difference between the two and accordingly we would urge that the regulations should not be explicit that derivatives should only be used as a risk management tool.

London CIV would welcome the opportunity to discuss this submission in more detail with government officials and Ministers.

Yours sincerely

Hugh Grover
Chief Executive

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Attachment 1: Participating local authorities

City of London Corporation

London Borough of Barnet

London Borough of Barking and Dagenham

London Borough of Bexley

London Borough of Brent

London Borough of Camden

London Borough of Croydon

London Borough of Ealing

London Borough of Enfield

London Borough of Hackney

London Borough of Haringey

London Borough of Harrow

London Borough of Hammersmith and Fulham

London Borough of Havering

London Borough of Hounslow

London Borough of Islington

London Borough of Lambeth

London Borough of Lewisham

London Borough of Merton

London Borough of Newham

London Borough of Redbridge

London Borough of Southwark

London Borough of Sutton

London Borough of Tower Hamlets

London Borough of Waltham Forest

London Borough of Richmond upon Thames

Royal Borough of Greenwich

Royal Borough of Kensington and Chelsea

Royal Borough of Kingston upon Thames

Wandsworth London Borough Council

Westminster City Council

Attachment 2: London CIV guiding principles

1. Investment in the ACS should be voluntary, both entry and withdrawal.
2. Boroughs choose which asset classes to invest into, and how much.
3. Boroughs should have sufficient control over the ACS Operator.
4. Investing authorities will take a shareholding interest in the Operator.
5. Shareholders will have membership of the Pensions Joint committee.
6. ACS Operator will provide regular information to participating boroughs.
7. ACS will not increase the overall investment risk faced by boroughs.

Attachment 3: Analysis of current borough holdings

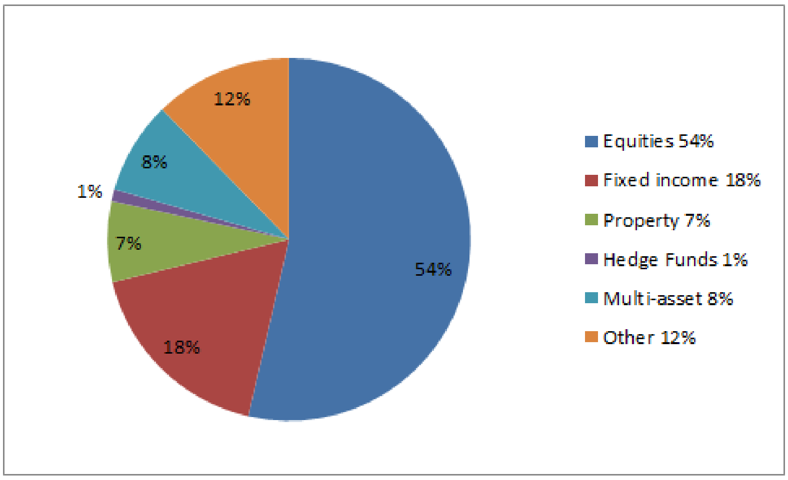
Current asset allocation

The breakdown of the pension fund assets as of 31 March 2015 for the 31 participating London boroughs can be seen below:

Table 1

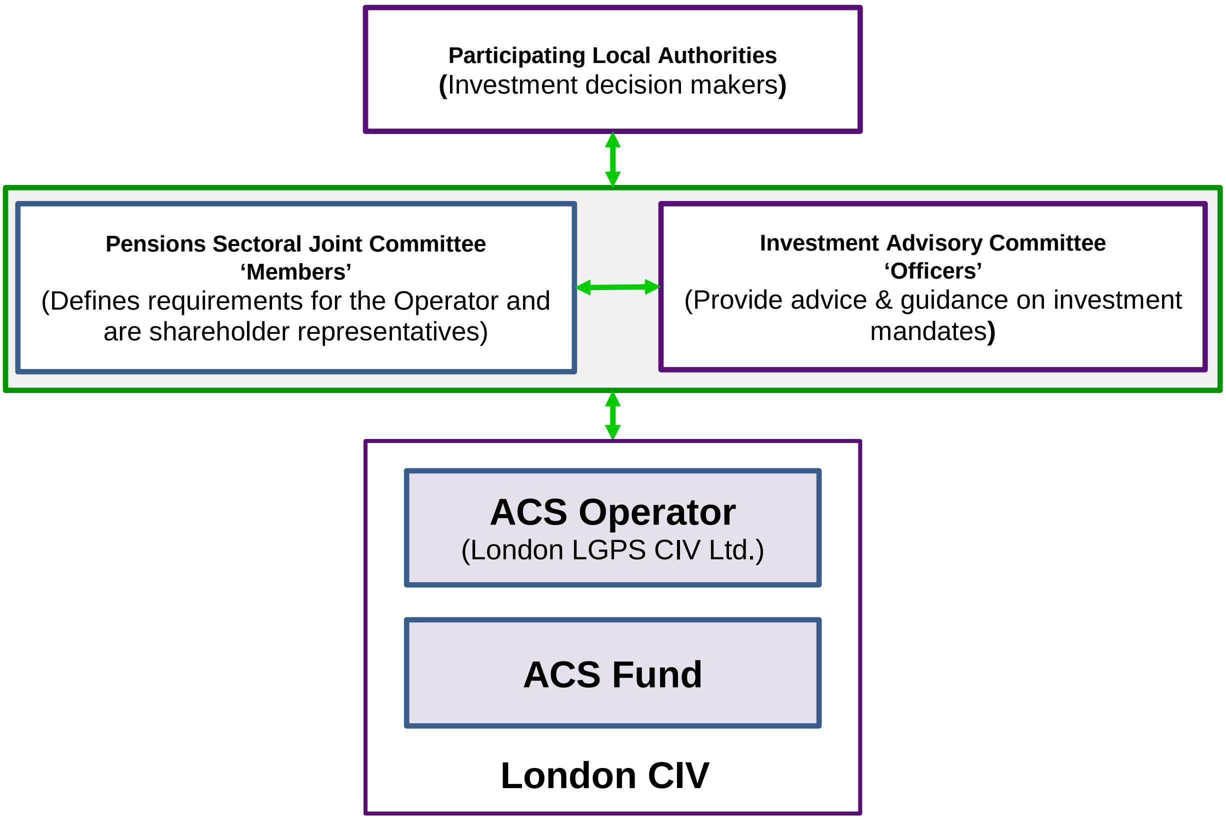
Allocation	£m, March 2015	Percentage
UK equities	5,077.39	18.9%
overseas equities	6,560.63	24.4%
unallocated	2,748.31	10.2%
total equities	**14,386.33**	**53.6%**
UK fixed interest	2,636.29	9.8%
overseas fixed interest	808.32	3.0%
unallocated	863.04	3.2%
total fixed interest	**4,307.65**	**16.0%**
UK index linked	312.52	1.2%
overseas index linked	30.01	0.1%
unallocated	80.43	0.3%
total index linked	**422.96**	**1.6%**
UK property	1,350.87	5.0%
overseas property	56.85	0.2%
unallocated	517.01	1.9%
total property	**1,924.73**	**7.2%**
UK hedge funds	32.40	0.1%
overseas hedge funds	-	0.0%
unallocated	256.56	1.0%
total hedge funds	**288.96**	**1.1%**
UK other	783.74	2.9%
overseas other	963.62	3.6%
Multi-asset	**2,214.31**	**8.2%**
Total unallocated	**3,961.67**	**14.8%**
infrastructure	193.53	0.7%
commodities	57.43	0.2%
private equity	525.05	2.0%
derivatives	- 2.28	0.0%
currency overlay	-	0.0%
cash	777.37	2.9%
Total investment assets	**26,843.38**	**100.0%**

NB the multi-asset allocation is done on a "best efforts basis" due to conflicting and out of date data.

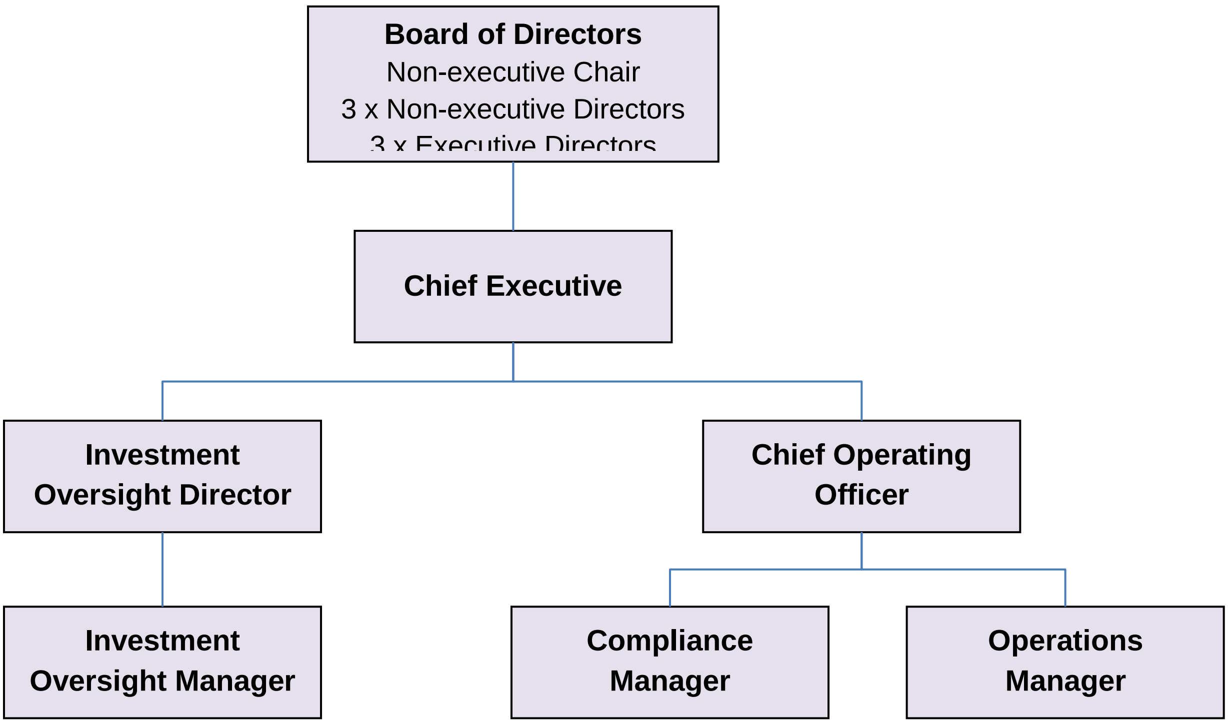


Attachment 4:

London CIV governance diagram



London CIV organisation chart



Attachment 5: Pensions Sectoral Joint Committee Terms of Reference

Constitution

1.a.1 The Pensions CIV Joint Committee is a sectoral joint committee operating under the London Councils governance arrangements.[1]

1.a.2 Each London local authority participating in the arrangements shall appoint a representative to the Pensions CIV Joint Committee being either the Leader of the local authority or the elected mayor as applicable or a deputy appointed for these purposes.[2]

1.a.3 The Pensions CIV Joint Committee shall appoint a Chair and Vice-Chair.

1.a.4 The Pensions CIV Joint Committee shall meet at least once each year to act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV, In addition, members of the Pensions CIV Joint Committee shall meet at least once each year at an Annual General Meeting of the ACS Operator in their capacity as representing shareholders of the ACS Operator.

1.a.5 Subject to Clause 1.1.4 above, meetings of the Pensions CIV Joint Committee shall be called in accordance with London Councils' Standing Orders and the procedure to be adopted at such meetings shall be determined in accordance with those Standing Orders.

1.a.6 If the Pensions CIV Joint Committee is required to make decisions on specialist matters in which the members of the Pensions CIV Joint Committee do not have expertise the Pensions CIV Joint Committee shall arrange for an adviser(s) to attend the relevant meeting to provide specialist advice to members of the Pensions CIV Joint Committee.

Quorum

1.a.7 The requirements of the Standing Orders of London Councils regarding quorum and voting shall apply to meetings of the Pensions CIV Joint Committee.

[1] The London Councils' Governing Agreement dated 13 December 2001 (as amended), London Councils' Standing Orders, Financial Regulations and other policies and procedures as relevant.
[2] Clause 4.5 of the London Councils' Governing Agreement dated 13 December 2001 (as amended).

Membership

[As amended from time to time]

Terms of Reference

1.a.8 To act as a representative body for those London local authorities that have chosen to take a shareholding in the Authorised Contractual Scheme (ACS) Operator company established for the purposes of a London Pensions Common Investment Vehicle (CIV).

1.a.9 To exercise functions of the participating London local authorities involving the exercise of sections 1 and 4 of the Localism Act 2011 where that relates to the actions of the participating London local authorities as shareholders of the ACS Operator company.

To act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV and, in particular, to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).

1.a.10 In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate these decisions to the Board of the ACS Operator company. These include:

1.a.10.1 the appointment of directors to the ACS Operator board of directors;

1.a.10.2 the appointment and removal of auditors of the company;

1.a.10.3 agreeing the Articles of Association of the company and consenting to any amendments to these;

1.a.10.4 receiving the Accounts and Annual Report of the company;

1.a.10.5 exercising rights to require the directors of the ACS Operator company to call a general meeting of the company;

London Borough of Hammersmith & Fulham PENSIONS SUB-COMMITTEE 16TH MARCH 2016	
REVIEW OF TRANSITION FROM MFS TO LGIM	
Report of the Strategic Finance Director	
Open Report A separate report on the exempt part of the agenda provides exempt financial information.	
Classification - For Review & Comment **Key Decision: No**	
Wards Affected: All	
Accountable Executive Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Nicola Webb, Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. Following the decision to transfer the overseas equity mandate actively managed by MFS to a global passive equity mandate with Legal & General Investment Management (LGIM), the transition of assets took place in November 2015. The cost of transition was £52.9k which is significantly below LGIM's initial estimate of £178k due to in-specie transfers and the crossing of stocks, which avoided transaction costs.

2. RECOMMENDATIONS

2.1. That the report is noted.

3. REASONS FOR DECISION

3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1. As reported to the sub-committee on 25th November 2015, it was decided to terminate the mandate for the active management of overseas equities with MFS following poor performance. It was decided to transfer the assets to a global passive equity mandate with Legal & General Investment Management (LGIM).

4.2. The transition was planned to take place in November 2015 with a view to transferring as many of the assets in-specie as possible to minimise costs. LGIM estimated the cost of transition to be £178k.

5. PROPOSAL AND ISSUES

5.1. The Fund's investment adviser, Deloitte, assisted with co-ordinating the transition with the two fund managers and the custodian and has prepared the report attached at Exempt Appendix 1 detailing the transition process and associated costs.

5.2. The report shows the transition costs were £52.9k, which is significantly below LGIM's initial estimate. This was due to the large amount of crossing of stocks which was possible with other LGIM clients, thus avoiding transaction costs.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. None.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. None.

11. IMPLICATIONS FOR BUSINESS

11.1 None.

12. RISK MANAGEMENT

12.1 Not applicable.

13. PROCUREMENT IMPLICATIONS

13.1 None.

14. IT STRATEGY IMPLICATIONS

14.1 None.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.			

LIST OF APPENDICES:

EXEMPT

Appendix 1: Deloitte: MFS LGIM Post Transition Report

Agenda Item 10

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 13

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