

London Borough of Hammersmith and Fulham Pension Fund Response

Submitted by:

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Efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds

The London Borough of Hammersmith and Fulham Pension Fund (LBHF PF) is dedicated to delivering excellent service to all LGPS scheme members. This commitment includes achieving cost efficiencies, providing value for money, ensuring effective governance, and generating positive excess returns. The Fund's investments span a diverse range of asset classes, consisting of global equities, bonds, property, multi-asset credit, infrastructure, private markets, renewables, and cash. As at 31 March 2024, the Fund's total net asset value was £1.36 billion with approximately 60% of its assets pooled with the London CIV.

The LBHF Fund is part of the Tri-Borough Treasury and Pensions team, along with Westminster City Council and the Royal Borough of Kensington and Chelsea. Recently, the London Borough of Bexley joined as an additional partner, benefiting from the Tri-Borough team's expertise in treasury and pension investment, governance and accounting services. This collaboration among the four London boroughs enables the Funds to achieve cost savings, economies of scale, a depth of knowledge, robust governance processes, and best practices, with a combined AUM of £6.2 billion

Question 1: How your fund will complete the process of pension asset pooling to deliver the benefits of scale

The London Borough of Hammersmith and Fulham Pension Fund supports the government's asset pooling initiative, recognising LGPS pooling as a viable strategy to achieve economies of scale and value for money. Currently, 60% of the Fund's assets are pooled. The Fund leverages various services offered by the asset pool, including asset management, climate-related reporting, and asset manager engagement. The Fund aims to transition further assets into the London CIV LGPS pool by the 31 March 2025 deadline. However, it is important to note that LGPS Funds invest in a diverse range of assets, some of which are highly specialised and long-term, so it is recognised by the Fund that the Pool will not always have a suitable vehicle for the Fund's objectives.

Since 2016, the Fund's investment consultant has played a crucial role in improving the Westminster Fund's funding level, which increased from 97% to 105% as of the 31 March 2022 actuarial valuation. This significant improvement is largely due to the excellent investment advice provided by the consultant. Over the five years leading to 31 March 2024, the LBHF Fund spent an average of £91k per annum on investment consultancy fees. As LGPS funds are responsible for setting their own strategic asset allocations and making autonomous investment decisions, it is essential for committees to have access to expert investment advice.

The London CIV LGPS asset pool has an effective governance structure, featuring dedicated committees to facilitate decision-making. The pool holds shareholder meetings bi-annually, allowing funds to hold the pool accountable and exercise shareholder powers. Additionally, the pool company hosts four shareholder committee meetings annually, enabling shareholders to consult on the pool company's medium-term financial strategy, financial performance, responsible investment, governance, and emerging issues. Officers also contribute to the pool's monthly business update meetings and participate in working groups focused on creating new fund offerings on the CIV platform and ensuring cost transparency

Question 2: How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.

The LBHF Fund has streamlined, effective and robust governance in place, with an experienced team working across four London LGPS Funds. The shared service structure allows for effective governance, as well as economies of scale and cost saving efficiencies. The representation of four boroughs allows for a stronger voice in holding the pool company and other service providers to account and having a greater impact and influence on decision-making processes. Officers maintain a constant dialogue with the LCIV asset pool in regard to manager performance and the potential for cost fee savings. In addition, the Chair of the Pension Fund Committee participates as shareholder representative on the pool company's Shareholder Committee.

By partnering with three other London boroughs, the LBHF Fund has been able to provide savings on the governance and staffing arrangements, with costs shared across the four boroughs, providing excellent value for money and cost efficiencies for its scheme members. The shared Treasury and Pensions team provides effective cost savings, experience, invaluable knowledge, skills and excellent governance arrangements, which safeguard collectively over £6.2bn in LGPS assets.

Since the inception of the LCIV pool company, the Fund has transitioned across 60% of assets, with estimated savings of £1.355 in the year ended 31 March 2023. The LBHF Fund administration function is outsourced to Local Pensions Partnership Administration (LPPA), under a shared services arrangement. At 31 March 2023, the Fund's administration costs per member were 4% higher than that of the average London LGPS Pension Fund.