



Department for  
Communities and  
Local Government

# Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation response



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Department for Communities and Local Government  
Fry Building  
2 Marsham Street  
London  
SW1P 4DF  
Telephone: 030 3444 0000

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# The consultation

1.1 This paper sets out the Government's response to the consultation, *Opportunities for collaboration, cost savings and efficiency*, which ran from 1 May to 11 July 2014. It outlines the main themes raised by respondents under each question and attempts to capture the wide range of views expressed.

1.2 The consultation set out how the Local Government Pension Scheme (the Scheme) could save up to £660 million a year by investing collaboratively and more efficiently. It sought respondents' views on the proposals for reform and how, if adopted, they might be implemented most effectively.

## Background to the consultation

1.3 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011. The report highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working be investigated further.

1.4 Recognising the scope for potential savings to the Scheme, the Department hosted a round-table event with the Local Government Association to consider these issues in May 2013. The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme that ran from 21 June to 27 September 2013. This asked respondents to consider how the administration, structure and management of the Scheme might be reformed to reduce fund deficits and improve investment returns, as well as cut investment fees and administration costs, strengthen the availability and quality of in-house resource, and improve the flexibility of investments. A copy of the call for evidence and the Government's response is available at <https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme>.

1.5 The responses were shared with the shadow Scheme Advisory Board, which provided the Minister for Local Government with an analysis of the responses and a number of recommendations. The shadow Board's findings were also published at <http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu>.

1.6 The responses to the call for evidence and the recommendations of the shadow Board helped to inform the consultation, *Opportunities for collaboration, cost savings and efficiencies*. In addition, a third piece of analysis was used to shape the proposals, commissioned by the Minister for Local Government and the Minister for the Cabinet Office using the Contestable Policy Fund. Hymans Robertson were chosen to examine three options for reform: creating five to ten merged funds, setting up between five and ten collective investment vehicles (CIVs), or establishing just one collective investment vehicle. This analysis, which identified scope for savings of up to £660 million each year, set out the costs and benefits of each option, the time required to realise any savings, and the practical and legal barriers to implementation. It also included an analysis of Scheme

performance over 10 years based on data provided by 98 local government pension schemes to the WM Company Limited. A copy of the Hymans Robertson report is available at <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>.

## Summary of proposals

1.7 The consultation, published on 1 May 2014, set out the following package of proposals:

- Establishing collective investment vehicles to provide administering authorities with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

1.8 The consultation sought respondents' views on the proposals and how they might be implemented. In particular, interested parties were asked to address the following questions:

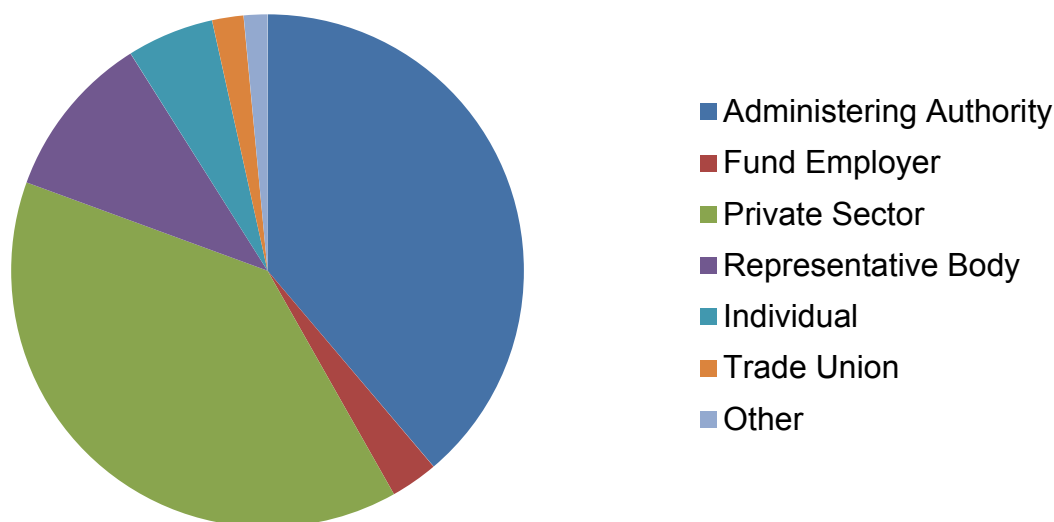
- Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.
- Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?
- Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?
- Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?
- Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

1.9 A summary of the responses received is provided for each question in section four. Several submissions also discussed alternative proposals for reform or ideas for reducing the deficit faced by most administering authorities, since the Scheme as a whole has assets to cover around 79 per cent of its liabilities. An overview of these suggestions is also available in section four.

# Summary of responses received

2.1 201 responses to the consultation were received in total, with both the public and private sector well represented. A full list of respondents has been included in Annex A.

Administering authorities	78	Representative bodies <sup>1</sup>	21
Private sector organisations	78	Individuals	11
Fund employers	6	Trade Unions	4
Other	3		



2.2 The majority of consultation responses agreed that using collective investment vehicles would deliver savings for the Local Government Pension Scheme. Similarly, there was a broad acceptance that there was a role for passive management in a balanced portfolio of investments, although most respondents felt strongly that neither proposal should be made compulsory.

2.3 However, respondents often differed when considering the detail of the proposals. For example, a wide range of views were put forward as to where collective investment vehicles might add most value, or how they should be organised.

2.4 It was commonly argued that further work was required to develop the policy, including setting out what a viable collective investment vehicle structure might look like. In addition, some respondents suggested that alternative governance, investment and administration reforms should be considered, in order to improve fund performance or address deficits. However, no overarching deficit reduction proposals were put forward.

<sup>1</sup> *Representative bodies* include lobby groups and *Other* includes civil society organisations.

# Government response

3.1 As set out in paragraph 2.1, *Opportunities for collaboration, cost savings and efficiencies* attracted a high level of interest from both the public and private sector, with over 200 responses received. It was clear that a great deal of consideration and effort went into these submissions and we are grateful to the individuals and organisations that provided a response.

3.2 The consultation set out the evidence and rationale for pooling investments through collective investment vehicles and using passive management for listed assets like bonds and equities. It sought to open up for discussion the focus of the reforms and to learn from respondents how the proposals might be best implemented.

3.3 In response to this first issue, the focus of the reforms, respondents were broadly in agreement: Mergers should not be pursued; asset allocation should remain with the administering authorities; and collective investment vehicles, at least in some capacity, offered the opportunity to deliver economies of scale. The Government remains of the view that asset allocation should stay with each of the 90 administering authorities and that savings can be delivered through the use of asset pooling, and in particular collective investment vehicles.

3.4 Respondents offered a wider range of views on the question of implementation. However, two common themes emerged:

- The proposals should not be made compulsory;
- A more detailed proposal is required before any final decisions about implementation can be made.

3.5 The Government recognised that further work was required to develop the policy. Indeed, questions three, four and five of the consultation encouraged respondents to shape the policy and suggest what a detailed package of proposals might look like. Many respondents offered their thoughts in this area, discussing the relative advantages and disadvantages of the different types of collective investment vehicle available, or offering suggestions as to the number of vehicles that might be required and how they should be organised.

3.6 In addition to the responses submitted, the Government commissioned PricewaterhouseCoopers (PwC) to analyse how collective investment vehicles could be best structured in terms of ownership and as legal entities. Their report discussed the different types of collective investment vehicle and concluded that the Authorised Contractual Scheme was likely to be the preferred approach. An Authorised Contractual Scheme is a UK based, tax transparent fund that is regulated by the Financial Conduct Authority and is designed to make it easier for the underlying investors to access the correct rate of tax when buying and selling investments. A copy of PwC's report is available at: <https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>.

3.7 Having considered the evidence and analysis of the consultation responses, the Government decided to pursue a localised approach to reform, inviting authorities to

determine how best to pool their assets and with whom to work. The following announcement was made at the July Budget 2015:

*The Government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The Government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.*

3.8 Drawing on the consultation responses and discussions with local government and the fund management industry over the summer, the Government has prepared criteria against which the authorities' proposals for pooling will be assessed. Authorities are asked to develop proposals for pooling assets that demonstrate:

- Asset pool(s) that achieve the benefits of scale,
- Strong governance and decision making,
- Reduced costs and excellent value for money, and
- An improved capacity to invest in infrastructure.

3.9 The criteria and supporting guidance have been published and can be found at: <https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>.

3.10 A consultation has now been launched on draft regulations that would reform the investment regulations and introduce a power of intervention to allow the Secretary of State to intervene in an authority's investment function should it not bring forward ambitious proposals for pooling. The consultation, Revoking and replacing the Management and Investment of Funds Regulations 2009, is open until 19 February 2016 and available at: <https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme>.



# The responses in detail

4.1 This section provides a detailed overview of the consultation responses, with quotations used throughout to illustrate the points raised. It captures the views expressed by respondents, and includes notes to supplement the Government's response.

**Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.**

4.2 Over two-thirds of the respondents that expressed a clear view in reply to this question agreed that collective investment vehicles would, at least in some respects, help the administering authorities to achieve economies of scale and deliver savings. Although opinions varied as to where pooled vehicles could add most value, there was a broad consensus that participation should be voluntary, with administering authorities able to invest elsewhere as well.

## **Benefits of collaboration and collective investment vehicles**

4.3 The benefits of collective investment vehicles were widely discussed, with many responses focusing on the opportunity that larger pooled funds presented to reduce asset manager fees. Lower administration, commission and custodian fees were highlighted, as well as a likely fall in transaction costs. It was thought that smaller administering authorities in particular might benefit from access to a wider selection of managers, thereby improving diversification.

The two largest investment management costs for LGPS [the Scheme] are investment manager fees and asset servicing costs. These are both fees typically charged as a basis point fee, with the basis point charge reducing as the size of assets increases. Accordingly, by combining assets together in a CIV, this should result in larger average asset sizes per mandate, and so reduce fees. [1 basis point is equal to 0.01% of assets].

Deloitte

4.4 Some respondents argued that collective investment vehicles could improve governance, as administering authorities would be refocused on setting their investment strategy if they were no longer responsible for manager selection. They were also seen as a means of accessing better advice, as competition amongst suppliers could increase if demand for these skills was concentrated into a few vehicles.

4.5 However, several responses called for alternative means of collaboration to be considered. For example, fee negotiations with asset managers could take place as if the funds had been pooled, but without the formal vehicle structure. Alternatively, greater use of performance related fees could both drive down costs and promote performance; while improving governance arrangements and the skills of pension committees was thought to lead to better manager selection and lower turnover costs.

4.6 A few respondents argued that in-house management should play a stronger role, with existing teams offering shared service arrangements to administering authorities not currently using internal fund management, in order to deliver scale and savings. Joint committees were also suggested, so that better performing administering authorities can support weaker ones.

4.7 Respondents also stressed that existing examples of collaboration, like the National LGPS Procurement Framework, have been shown to save both time and money. Some argued that they might offer the advantages of a pooled fund without the cost of the supporting structure.

Using good quality frameworks saves significant time and money for LGPS [Scheme] Funds, ensures best practice OJEU compliant procurement and provides access to services with proven track record and expertise.

National LGPS Frameworks

4.8 A few submissions highlighted that the existing investment regulations<sup>2</sup> would need to be changed to facilitate substantial investment in collective investment vehicles. They argued that the regulations currently include limits on investment in certain types of investment vehicles which would need to be removed. This follows wider calls for the investment regulations to be reviewed, which have been considered by the Government.

### **Limitations of Collective Investment Vehicles**

4.9 Around 30 respondents queried whether savings would be delivered, especially for larger funds that were thought to already access diverse investments and low fees. Some felt that governance and accountability might be weakened if performance was reported at the group, rather than fund level. The vehicles were also seen as a potential barrier to responding to individual administering authorities' needs; for example if boutique fund managers were excluded or an environmental, social and corporate governance policy was ignored.

Due to focus on fees and capacity CIVs may limit the number of managers funds can choose from. This may exclude some of the boutique managers many of whom have been proven to deliver favourable outperformance net of fees.

Cumbria Pension Fund

### **Making best use of collective investment vehicles**

4.10 Although there was strong support for collective investment vehicles, opinion was divided over where they would add most value. Some respondents felt that pooled funds should only be used for unlisted investments like hedge funds and private equity, while others argued they were most useful for listed assets like bonds and equities. A brief summary of the main arguments from the different view points is provided below.

4.11 Around ten percent of respondents giving a clear response to this question saw no role for collective investment vehicles if passive management of bonds and equities was adopted. Many felt that they were already paying low fees for passive management, by

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<sup>2</sup> The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

using either existing pooled funds or in-house teams. For those using a large, passive pool, creating a new vehicle just for the local government pension scheme was seen as unfavourable, as it could increase transaction costs and would not have a track record of delivery.

For passive investment, the use of a framework agreement that would access the pooled funds of the large passive managers should be considered. An LGPS wide fee arrangement could be negotiated. Such funds have extremely efficient trading operations in place and benefit from strong administration practices, transition management skills and a sound approach to corporate governance.

Tyne and Wear Pension Fund

4.12 In contrast, a few respondents argued that pooled funds would not be suitable for actively managed bonds and equities, as investment managers may restrict access to certain opportunities because they cannot invest a larger volume of assets. Meeting individual administering authorities' needs was also seen as problematic as they may have different investment policies, for example some permit stock lending but not all.

4.13 A further ten percent stressed the benefits of pooled vehicles for illiquid assets like private equity, hedge funds and infrastructure. Some argued that administering authorities newly investing in these asset classes could learn from more experienced ones, as well as reducing costs by sharing expertise and due diligence checks. Smaller administering authorities were also thought to benefit, offering access to these types of investments without needing to use more expensive "fund of funds". Similarly, it was suggested that other administering authorities may be able to more easily to build on existing projects and invest in social infrastructure.

A CIV or any other pooled vehicle for alternative investments could...achieve sufficient scale of pooled assets to establish investments in social infrastructure such as social housing or residential care homes.

Legal and General Investment Management

4.14 However, others felt that a collective investment vehicle for investments like private equity and infrastructure would be less effective, since managers already operating at capacity would have little incentive to reduce fees. Similarly, it was argued that better performing managers may not want to risk having such a concentrated client base and so may choose not to participate in a vehicle just for the Local Government Pension Scheme.

## Practical constraints

4.15 Respondents also raised a range of practical issues they wished to see addressed:

- How would the range of skills required for the different types of illiquid assets like infrastructure, private equity and hedge funds be accommodated?
- Would the cost and availability of the resources and skills required to run a vehicle for these illiquid assets be prohibitive? Especially for private equity, where specialist managers with local knowledge and established relationships in several countries may be required?

- Was there not still a case for accessing private equity through a fund of funds, if it provided a better way to diversify investments and manage risk, especially where an existing structure has a track record of strong delivery?

It is important to understand that Fund-of-Funds allow access to specialist investment managers... It could, for example, be argued that an investor like ourselves could build our own private equity portfolio given that we have £100m invested in the asset class. However, it is naïve in the extreme to think that we could build one that is both sufficiently diversified and exposed primarily to “top tier” managers across the World...

Leicestershire Pension Fund

4.16 Several respondents argued that property should not be included in a collective investment vehicle with illiquid assets like infrastructure and hedge funds. The resource required to support investment in property was seen as a significant cost and barrier to its involvement in a new pooled fund. In addition, many highlighted that it would be expensive to move property investments into a different vehicle as stamp duty land tax that would be payable, although respondents differed on the amount it would cost.

However, if ownership of all the £12.1 billion LGPS [Scheme] property assets were transferred to a new vehicle, Stamp Duty Land Tax alone would amount to £486 million.

Association of Real Estate Funds

4.17 A few responses also stressed that the savings identified by Hymans Robertson as resulting from a collective investment vehicle for pooled assets did not include property, which was categorised separately and in some cases held directly. As such, they argued that the savings available from investing in property through a pooled vehicle have yet to be demonstrated.

## Government response

4.18 The Government has reflected on the views received and invited administering authorities to bring forward proposals for pooling their pension scheme assets. In so doing, it will be up to authorities to determine the most suitable mechanism for pooling and the extent to which different investment approaches, such as in-house management, should be used.

4.19 The Government has published a consultation on revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This proposes to remove the existing limits on investments and instead move towards the prudent person approach to securing a diversified investment strategy that appropriately takes account of risk.

## Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

4.20 There was almost unanimous agreement, amongst those who responded to this question, that asset allocation should remain with the administering authorities. Many felt that this should include implementation style, such as whether to use active or passive management.

### **Asset allocation should remain with the administering authorities**

4.21 Respondents argued that if the liabilities remained with the administering authorities, it was vital that they also kept the means to address them. A locally set investment strategy was seen as essential if an administering authority was to match its investments to its circumstances; including fund maturity, deficit recovery period, cash-flow requirements, the affordability of employer contributions and the desired risk appetite of the administering authority.

4.22 The democratic link to councillors was also emphasised. At present, investment decisions are typically made by councillors through the administering authority's pensions committee. As such, it was argued that those responsible for determining the asset allocation could be held to account directly by council tax payers through local elections.

The decisions on strategic asset allocation are therefore best taken where those liabilities are best understood and where responsibility lies for the future funding which is at individual Pension Fund level.

An Administering Authority

### **Some changes could be made**

4.23 However, some respondents also called for changes to strengthen local decision making, with high turnover of pension committee membership often cited as an issue. A number of suggestions were made, including more peer-benchmarking to consider risk relative to the administering authority's liabilities and investment strategy, publishing evidence of a timely and credible deficit reduction plan, and allowing larger employers such as district councils a clearer say in how the funds and investments are managed.

4.24 The creation of a permanent, professional investment committee was also put forward. Staffed by officials with some councillor representation, it was suggested that this body could be responsible for day to day decisions like manager selection, with the elected pension committee focusing on the long term funding strategy.

### **The existing asset allocation process should be reformed**

4.25 Respondents did not typically call for centralised asset allocation, although some argued that administering authorities should be required to meet a minimum performance or governance standard, with those falling short obliged to delegate asset allocation to a stronger authority. In addition, a few suggested that asset allocation could be collated amongst administering authorities of a similar size or type. They envisaged delegating the detailed asset allocation, but keeping the strategic decisions about fund objectives and high level asset allocation at a local level. However, views differed as to whether this

should be delegated to in-house pension teams who could react quickly to changing market conditions, or centralised through a joint committee to achieve scale and access specialists.

4.26 Merging investment committees or using a Joint Committee structure for a small number of administering authorities was seen as advantageous by some respondents, who felt it would consolidate knowledge and free up staff to monitor fund manager performance. Employers in multiple local government pension schemes were also thought to benefit from this arrangement, as the scale achieved could enable administering authorities to set employer specific investment strategies:

At present, the majority of Administering Authorities run a single investment strategy with all employers having an equal allocation across the chosen asset classes. Increasing the scale through a Joint Committee allows more potential to run multiple investment strategies which could include a standard allocation plus low and high risk options. Individual employers would then have the choice of allocation to best meet their own circumstances and risk appetite. Increasing scale and running with fewer Committees therefore potentially increases local accountability at employer level, as well as allowing a better match of the liabilities at local employer level with the investment strategy of the fund.

Oxfordshire Pension Fund

### **Government response**

4.27 The Government agrees that strategic asset allocation should remain with the local administering authorities. However, as authorities develop proposals for pooling assets, they will wish to revisit and review their decision making processes. For example, while asset allocation should remain a local decision, manager selection should be undertaken at the pool level to maximise savings.

### Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

#### **How many common investment vehicles should be established?**

4.28 Around sixty per cent of respondents expressed a clear view in response to this question, with most suggesting a minimum number of vehicles rather than an exact total. Of those respondents, almost three quarters called for more than two pooled vehicles, with a further fifteen per cent arguing for as much flexibility as possible. A small number of respondents reiterated their view that collective investment vehicles were not needed. They felt that if all of the asset classes required were to be included, it would add complexity and cost to the administration and governance arrangements.

#### A small number are needed

4.29 Around ten per cent of those who responded to this question argued that a small number of vehicles would be most effective, for example between one and three. Having just one vehicle for passive investments was seen as advantageous as it would maximise the opportunities to match buy and sell transactions within the pool, reducing interaction with the market and therefore investment costs. A more diverse range of vehicles was thought to be necessary for illiquid assets like infrastructure and private equity, since different skills and resources would be required for each of these asset classes. This group also warned that replicating the existing range of asset classes and investment styles would lead to a proliferation of ineffective vehicles.

#### Several collective investment vehicles are required

4.30 However, most respondents were in favour of several collective investment vehicles being created. They felt that national vehicles may leave administering authorities insufficiently involved in decision making, or that the governance arrangements would become unwieldy if all 90 authorities were involved. Respondents were also concerned that too few vehicles would increase the funds' exposure to risk. For example, capacity constraints could arise if managers were unable to invest large sums effectively; while other investors may try to exploit the Scheme, aware that any passive investments would need to be rebalanced within known index rules.

However, as noted in the Hymans Robertson report, there are diseconomies of scale above a certain size while a natural ceiling exists for certain asset classes. Capacity concerns may influence the competition in the market if only the largest investment houses can service demand, limiting many of the more niche or boutique managers who arguably over time have outperformed the market and are best placed to add value while also limiting the extent to which downward pressure on fees can be applied.

Wiltshire Pension Fund

4.31 For many, a larger number of vehicles offered better diversification of asset manager and lower risk. A few suggested that between five and eight vehicles would be ideal, with some arguing that competition between vehicles may boost performance.

#### A balanced approach

4.32 Several respondents argued that it was not possible to comment on the number of vehicles required until further work had been done to establish a preferred governance structure and operating model. Others felt that the appropriate number should emerge from the design process, once an optimal size of pooled fund has been determined.

4.33 Balancing the need for strong governance, local accountability and input, along with the desired economies of scale and effective decision making, was also a common theme. Similarly, many thought it essential to balance the savings that could be achieved through scale, with the choice and flexibility required to meet administering authorities' investment needs.

It is widely believed that funds can be too large and subject to capacity constraints, while if not large enough, then potential savings will be significantly reduced. Also, if the mix of asset classes are too diversified, savings could be limited, if not diversified enough, exposure to risk is magnified and may offer limited appeal...Governance arrangements will need to represent the best interest of its members; however if every local authority that manages a pension fund is keen on making representation in the running of the CIV, this would slow down the decision making process and make governance arrangements unwieldy. Therefore a compromise will need to be found.

Milton Keynes Council

#### **How should the common investment vehicles be organised?**

4.34 A wide range of ways to organise collective investment vehicles were suggested:

- Creating a vehicle for each **asset class**. This approach was especially popular for illiquid assets like infrastructure, hedge funds and private equity, given the different skills sets, fee structures and access routes involved.
- Using **geographic** groupings or existing networks to facilitate the vehicles, as London Councils are currently doing for the London boroughs.
- Basing vehicles on **risk appetite, investment approach or index**, to help administering authorities deliver their investment strategy, or environmental, social and corporate governance policy. For example, one vehicle might offer the FTSE4Good; a second might be focused on delivering liquid returns; and a third on liability matching.

4.35 Some respondents argued that the number and structure of any vehicles should be decided by the administering authorities, perhaps in response to a clear set of objectives for collaboration set out by Government.

The number and type of collaborative investment vehicles should be limited to provide for the benefits of scale but should be allowed to develop organically and consist of multi asset class structures.

Shadow Scheme Advisory Board



4.36 Finally, several respondents argued that whatever arrangements were put in place, they should offer the flexibility to react to emerging techniques and the changing needs of the authorities. Views were split as to whether this flexibility should extend to competition between vehicles. Some saw this as a means of preventing monopolies, encouraging innovation and driving down costs, while others thought it might lead to short term decision making and unnecessary asset turnover.

### **Which asset classes?**

4.37 Around fifteen per cent of respondents listed the asset classes that they thought should be included. Many set out a wide range, while others called for the current array of Scheme investments to be offered. A few went further, arguing that reducing the choice available could increase risk in the Scheme, as the assets would become more concentrated into certain asset classes or invested with fewer managers.

4.38 A wide range of geographical markets and implementation styles for bonds and equities were requested. For example, the option to manage both actively and passively was often mentioned, with passive management to include approaches such as smart beta, target index approaches and enhanced passive. These tools use index tracking like most passive funds, but allow the investor to set certain parameters under which the fund may deviate from the index like an actively managed investment. A substantial range of bonds and gilts were also referenced, to encompass different redemption periods and varied risk appetites. A few respondents also called for liability matching, although some felt that this, and other means of addressing interest rate and inflation risks, required a tailored approach for each administering authority and so should be organised outside of any collective investment vehicle.

4.39 For investments other than bonds and equities, a similarly broad range was proposed. This included infrastructure, real estate, global and UK property, hedge funds, private equity, private debt, diversified growth funds and absolute returns.

### **Government response**

4.40 The published criteria and guidance for investment reform asks administering authorities to develop proposals for asset pools that meet their needs, including determining how the pools are structured and the asset classes to be offered. However, it is important that authorities develop larger asset pools in order to access the benefits of scale. The criteria therefore set out the Government's expectation that authorities will develop proposals for no more than six pools, each with at least £25 billion of Scheme assets.

## Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

### What structure should be used?

4.41 Just under forty per cent of respondents gave a clear view about the legal structure they felt should be adopted, for example a unitised vehicle; a limited liability partnership, or an authorised contractual scheme. Many argued that further analysis was required to determine the most appropriate structure, or commented instead on the characteristics they would like to see included. Of those who did indicate a preferred structure, two thirds were in favour of the Authorised Contractual Scheme, with many pointing to London where work is underway to establish this type of vehicle.

#### Authorised Contractual Scheme

4.42 An Authorised Contractual Scheme (ACS) is a tax transparent fund based in the UK. Launched by HM Treasury in 2013, it is regulated by the Financial Conduct Authority and designed to make it easier for the underlying investors to access the correct rate of tax when buying and selling investments both in the UK and overseas. It can take different legal forms, operating as a Limited Partnership or as a Qualified Investor Scheme. The relationship between the investors and scheme operator, as well as the use of sub-funds within the vehicle, depends on the legal structure adopted.

4.43 The Authorised Contractual Scheme was the most frequently discussed structure amongst both public and private sector respondents. The London boroughs have chosen to use this model for their collective investment vehicle and many respondents drew on their analysis, highlighting the following benefits:

- Regulation by the Financial Conduct Authority and by UK law,
- The ring-fencing of assets and liabilities, so that investors cannot be called upon to cross-subsidise each other,
- A tax transparent structure enabling administering authorities to access the right rate of withholding tax,
- New rules on stamp duty land tax which is expected to offer further tax benefits, for example, if a particular structure is adopted, transfers between sub-funds would be exempt from that tax.

4.44 Wider benefits were also cited, including the option to have fund managers accountable to joint committees where several administering authorities could be represented; the opportunity to improve the comparability and transparency of fund data; and the potential to use transparent sub-fund performance data to deliver better returns.

Pooling through an ACS is seen as having particular attractions for pension funds due to its tax treatment, governance structure, and its flexibility when it comes to accessing different asset classes.

Society of London Treasurers

### Other options should be considered

4.45 Although the majority focused on the Authorised Contractual Scheme, a few questioned whether it would be the most practical option. For example, the Authorised Contractual Scheme cannot hold units in Unit Linked Life Trusts, which are often used by the administering authorities to access UK Commercial Property or pooled index funds. Similarly, the vehicle was thought to be potentially tax inefficient for property, as transfers into the vehicle would, at the time of the consultation, be subject to stamp duty land tax. A few respondents suggested that if more than one vehicle were to be established, different structures could be used to reflect the varied needs of the distinct asset classes. For example, a limited partnership or closed ended fund might be appropriate for longer term investments that are hard to convert into cash, like infrastructure. Here the lack of easy subscription or redemption of holdings may be beneficial, but for the same reasons, that structure may not be suitable for more liquid asset classes like equity.

It is, however, important to recognise [that] the current tax legislation result[s] in an ACS structure being potentially attractive for liquid investments such as equity but raises questions around their use for illiquid investments, specifically property if the assets are to be moved in-specie from an existing portfolio into an ACS structure.

Aviva Investors

### Further work is needed to determine the most beneficial structure

4.46 A significant proportion of respondents remained undecided about the optimal vehicle structure or felt unable to comment. Many argued that given the complexity of the question, further work was needed to better understand the options before making a decision. For example, they suggested that even if the Authorised Contractual Scheme was chosen for its tax transparency, a further decision about the legal structure would also be needed – should it be a limited partnership or co-ownership scheme; if the latter, should it take the form of a Qualified Investor Scheme or an Undertaking for Collective Investments in Transferable Securities?

4.47 Instead of proposing a specific vehicle, many respondents from this group set out the characteristics they thought should be present. Typically, they recommended a structure that was cost effective and efficient, transparent and flexible. Direct ownership of assets was also preferred, as was a clear performance management system, so that a manager's contract could be terminated in the event of poor performance.

We recognise that we are not experts in the legal and regulatory structure of CIVs... However we can comment on the characteristics that we would expect to see in such a CIV:

- Appropriately regulated
- Direct Ownership of Assets by investors
- Tax efficiency and transparency
- Segregation of liability at sub-fund level
- Cost efficient
- Flexible (broad range of asset classes and investment strategies)
- Flexible (allow additional asset classes and strategies to be added)

Cheshire Pension Fund

4.48 A small number of responses questioned whether the Government had the legal powers to create collective investment vehicles or require participation in them. Some also suggested that the procurement processes would also need to be carefully thought through depending on the legal ownership and creation of vehicle.

### **What governance arrangements should be established?**

4.49 The role of the administering authority in a collective investment vehicle featured strongly in the consultation responses. Many argued that since the assets were owned by the local administering authorities, it was vital that they retained influence. Respondents were divided as to how this should be achieved, but most suggested some form of councillor involvement.

4.50 A popular proposal was to establish a joint committee of councillors to act as shareholders of the vehicle's operating company, drawing on the approach being taken by the London boroughs where the administering authorities each have an equal shareholding. However, others felt this would be unwieldy, with too many people involved in decision making and governance. They suggested that representative bodies of Chief Finance Officers, or the administering authorities' nominated councillors, select a few councillors to act on all of their behalf.

4.51 Some respondents also argued that Scheme members or independent professional advisors should play a role in the vehicle's governance structure. The model used by the National Employment Savings Trust (NEST) was put forward. It includes an elected body of trustees, a properly qualified executive team, and formal processes for engagement with members and employers. A few respondents also wanted greater delegation to professional managers to enable them to react to opportunities as they arose, for example, by allowing them to decide how an administering authority's investment portfolio is constructed.

Such investment offices should be answerable to a governance board or panel representing the participating funds and their membership. Such boards may benefit from the presence of independent experts or advisers (the equivalent of independent trustees within a corporate trustee context).

Insight Investment

4.52 There was an expectation amongst a few respondents that if collective investment vehicles were established, they would be public sector bodies, with in-house asset management where possible, drawing on skills already present within the Scheme. Some queried whether public sector pay constraints would make it difficult to retain good, skilled staff, while others pointed to the administering authorities that already have in-house investment teams.

4.53 A few respondents also questioned whether the collective investment vehicle should be profit making, with the profit returned to the pension funds. They argued that this would develop a culture of appropriate risk taking which would help the administering authorities to compete in markets against private sector organisations.

Establishing a suitable level of fees is a further governance question. Is the CIV to be profit-making, and if so, should it be owned by the LGPS schemes so that any profit is returned to them? If not profit-making, will it be possible to develop an appropriate internal culture of risk-taking when competing in investment markets against private sector operators?

Linchpin IFM

4.54 Finally, it was important to a few respondents that the structure made it possible for the administering authorities to fulfil their environmental, social and corporate governance commitments and strategies. For example, they argued that asset owners should be able to engage directly with the companies they are invested in and vote independently of fund managers, as set out in the UN Principles of Responsible Investment.

### **Government response**

4.55 The Government has invited authorities to determine their own governance structures and approach to asset pools. In December 2014 PricewaterhouseCoopers were commissioned to analyse the different types of collective investment vehicle and legal structures available. To support authorities in the development of their asset pools, the Government has published this analysis, which is provided for information only. It does not represent the view of Government, and authorities should seek their own professional advice as necessary in the development of their asset pools.

4.56 The Government has included a separate criterion on governance to help authorities develop viable asset pools that streamline decision making while maintaining democratic accountability for the scheme. Authorities will need to design a governance structure that provides them with assurance that their investments are being managed appropriately by the pool and in line with their investment strategy, but also ensures that at the pool level, risk is adequately assessed and managed, a long-term view is taken, and a culture of continuous improvement adopted.

4.57 The Government agrees that authorities should act as responsible, long term investors within a pool and be able to give effect to their environmental, social and corporate governance policies. When developing their proposals for pooling, authorities will therefore need to determine how their individual investment policies will be reflected.

**Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?**

4.58 There are two main types of investment approach, which can be used individually or in combination. Passive management typically invests assets to mirror a market in order to deliver a return comparable with the overall performance of the market being tracked. An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf. By using their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management and still has the risk of under performing the index.

4.59 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the authorities' investments as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

4.60 The consultation therefore advocated the use of passive management for bonds and equities, setting out four options for implementation which are discussed below. These ranged from making the proposals compulsory, to asking the administering authorities to consider the benefits of passive management in light of the evidence provided.

4.61 Just over three-quarters of respondents clearly stated a preference for one of the options. Almost all, around 97 per cent, favoured proposal three or four: using a "comply or explain" model or allowing administering authorities to evaluate and act on the evidence presented.

**Option 1: Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.**

4.62 Although no one suggested that passive management should be made compulsory, several respondents recognised that it had a role to play as part of a balanced portfolio. They saw passive management as a means of achieving greater transparency, lower transaction and governance costs, and reduced manager selection risk.

4.63 Some respondents went further, acknowledging that active management does not always achieve outperformance and so calling for a substantially passive approach. It was argued that this would free up resources to focus on governance and ensure that active managers were only used when the administering authority felt strongly that it would see consistent, positive returns.

4.64 However, none of the submissions voiced support for option one and a few asked whether the Government had the legal authority to require administering authorities to

invest in a particular way. Many were concerned that the administering authorities would see lower returns, or called for the risks associated with passive management to be more closely examined. A summary of the issues raised is provided from paragraph 4.76 below.

**Option 2: Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.**

4.65 Many of the respondents saw this as a variant of option one, as the administering authorities would still be required to invest a proportion of their assets in a particular way. As such, they argued that it was not viable for the same reasons that they felt passive management of listed assets should not be made compulsory.

4.66 A few felt that this option offered a balance between local control and the need to ensure a viable Scheme. They suggested that the level of passive management required could be individually negotiated, with better performing administering authorities given more autonomy and a higher percentage applied to those identified as poor performers.

4.67 Option two was also seen by a few respondents as a means to increase the use of passive management to a level that could allow it to be effectively managed through a collective investment vehicle. This would ensure that the scale needed for a pooled fund was achieved, while still allowing for some use of active management of listed assets.

**Option 3: Fund authorities could be required to manage listed assets passively on a “comply or explain” basis.**

4.68 The “comply or explain” approach was most popular with respondents, with around half of those who expressed a clear view preferring this option. It was suggested that a “comply or explain” framework might increase the use of passive management, while also improving the accountability and transparency of fund performance. Some felt that it would allow in-house management to continue, while others thought it could lead to better returns, as it may encourage administering authorities to use active management only where they felt strongly that it would add value.

4.69 However, respondents also argued that greater clarity was needed about how this option would work before reaching a conclusion. In particular, they wanted to ensure that the reporting mechanisms would not be too onerous, to understand what the administering authorities would be expected to “comply” with, and any consequences of non-compliance.

4.70 The 2009 Investment Regulations already require administering authorities to publish a Statement of Investment Principles which sets out the investment strategy adopted by that authority. Some respondents argued that the administering authorities already explain their investment approach through this Statement, while others thought that it could be expanded to meet the requirements of a “comply or explain” system.

4.71 A few responses suggested what the administering authorities might be required to “explain”, such as the rationale for using active management; the reasons for any underperformance; and the governance processes in place, including the arrangements for the effective monitoring of fund managers. In addition, evidence to demonstrate the appropriate use of passive management and smarter benchmarks was also put forward.

4.72 Alternatively, a “perform or explain” framework was also proposed, focused on returns net of fees. Under this approach, administering authorities would be expected to demonstrate that they had considered the balance between the additional value secured and the fees being paid, when making their investments.

**Option 4: Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report.**

4.73 Around a third of those who gave a clear view in response to this question felt that the administering authorities should be able to decide the extent to which they used passive management. They argued that since the administering authorities are best placed to formulate the investment strategy, they should also determine how it is implemented, including when to use active management. Indeed, some thought that this option would allow the administering authorities to ensure that the different reasons for making investments were properly reflected, for example to maximise capital growth, support cash-flow requirements or minimise volatility risk.

...funds increasingly want their managers to achieve a very fund-specific investment profile (return and risk), not just ‘beat the index’. Examples include portfolios with a specific income bias, or risk strategy... or defined (constraints and discretions) set of investment opportunities. There are many examples of perfectly valid implementation styles which are not just about beating the index.

Eric Lambert

4.74 However, some respondents argued that this option would simply maintain the current situation and so not go far enough. They argued that the administering authorities are already expected to consider the advantages of active and passive management when making their investments and the rationale for their approach should be set out in their investment strategy. Despite this, as the evidence in the Hymans Robertson report has shown, the administering authorities have been achieving an aggregate return equivalent to that of passive management, but paying for active. Furthermore, the report indicated that the Scheme as a whole was using less passive management than peer group of large pension funds in the CEM analysis.<sup>3</sup>

**Other options to be considered**

4.75 Finally, a few responses suggested alternative ways to implement the proposals:

- Administering authorities could be required by law to account transparently for all investment fees, including those paid through management contracts, unitised investment vehicles, or to consultants. This could include an explanation of the value added in comparison to that available from the use of in-house management teams.

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<sup>3</sup> Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.14  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/307926/Hymans\\_Robertson\\_report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf)



- A cap on active management fees or an overall budget for investment management could be set out, in order to drive down fees and encourage administering authorities only to use active management where they were most confident of securing higher returns.
- The impact of collective investment vehicles on performance could be evaluated before deciding whether to make passive management of listed assets compulsory. It was argued that administering authorities may gain access to better governance and fund managers through the vehicle, helping poorer performing administering authorities to improve so that the Scheme would achieve an aggregate investment return above the passive benchmark. A few responses went further, suggesting that the London collective investment vehicle could be used as a pilot to test the impact of pooling investments on performance.

### **Passive management should not be made compulsory**

4.76 As indicated in paragraph 4.64, while some of the respondents recognised the benefits of passive management, none voiced support for making it compulsory. This section attempts to capture the main reasons put forward for the continued use of some active management, which many felt was important for a balanced investment portfolio.

#### A role for active management

4.77 Respondents from both the public and private sectors sought to demonstrate how the administering authorities had benefited from active management, citing examples of investments that had delivered a return above the benchmark set. Many were concerned that these higher returns, which they felt might outweigh the potential cost savings, would be lost if the administering authorities were required to move to passive management of bonds and equities.

A comparison of lost performance vs. reduced investment fees over this period shows that a total passive approach might reduce this annual cost by £20m over 10 years but this has to be offset against our investment outperformance. Over the last 10 years the Fund has achieved +0.5% returns per annum above the benchmark. Given the average value of the Fund during that period our active approach has added at least £75m to the value of the Fund which more than covers the extra active management costs (£20m) over the same period.

Greater Gwent Pension Fund

4.78 Another popular argument was that the reforms should just apply to the poorer performing administering authorities. Those able to evidence the effective use of active management would not be required to invest passively in bonds and equities. It was suggested that this would bring up the overall performance of the Scheme, without penalising those achieving higher returns. It was less clear how the better performing administering authorities would be identified, although there was a broad consensus that evidence of strong governance and performance to date should be considered.

Of the actively managed equity portfolios, global equity represented by far the greatest proportion of actively managed assets [in London]. Our analysis found that for 2012/13 that in aggregate London Funds would have been £49.4 Million better off had they invested passively – however there were a significant number of funds who were worse off. If only those getting returns lower than the passive benchmark were able to achieve passive returns and those that got superior returns were able to keep those excess returns then London funds would have been £101.3 Million better off.

Society of London Treasurers

4.79 Similarly, some respondents felt that there were some asset classes where active management may add more value, or where passive management might not be suitable. These included less efficient markets such as the emerging markets, more complex asset classes like private equity, and investment strategies that are difficult to replicate using an index, such as a return in excess of a benchmark like LIBOR.<sup>4</sup>

4.80 Most commonly, however, respondents thought that corporate bonds should be managed actively. Some suggested that it was difficult to replicate a corporate bond index passively, so high tracking errors would arise reducing the returns available. Others stressed that because corporate bond indices are based on the value of debt issued, the investors largest holdings would be with the organisations with the most debt. They argued that this increased the chance of a default and investment losses.

4.81 Finally, some suggested the rules of the market and some indices would mean that investment opportunities might missed; for example if the value of the bond was below the threshold for inclusion in most indices. It was also thought that losses would be incurred that could be avoided by active investors:

Standard credit indices have strict rules regarding the credit ratings of the underlying constituent securities to reflect different levels of credit risk. In particular, investment grade indices stipulate that only bonds rated at or above BBB the indices. This means that, should an issuer be downgraded to being rated below investment grade, the issuer would be removed out of the index at the end of the month of downgrade, forcing index investors to sell the bonds at distressed prices. Such “fallen angels,” however, often bounce back; losses initially experienced upon, or in the lead up to, a downgrade are partially recouped in the following months. For the passive investor the initial losses are locked in as the bond falls out of the index and subsequent gains are not captured.

Western Asset Management Company Limited

#### Risks and issues of passive management

4.82 Some respondents were concerned that compulsory passive management might increase the administering authorities’ exposure to risk. For example, they argued that passive managers are unable to react to changes in the market, or mitigate risks by selecting investments based on value rather than market position. Others argued that

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<sup>4</sup> LIBOR is the London Interbank Offered Rate. This is the average interest rate estimated by lending banks in London that the average lending bank would be charged if borrowing from other banks.

since passive funds usually follow the relative value of investments in an index, investments can become concentrated or over-exposed to individual companies.

When investors buy the S&P 500 [Standard and Poor's] they are expecting allocation to 500 names. In fact, the top 50 weightings (or 10% of the names) make up almost 50% of the index by market cap – there is more stock specific risk than many might expect.

Unigestion (UK) Limited

4.83 The risk that passive management may lead to lower returns or higher costs than expected was also raised. Most passive funds track the index based on market capital weight, the relative values of the organisations within the index. Some respondents argued that since this market capital weighted approach always follows the movements of the markets, passive funds tend to buy shares when they are getting more expensive and sell them as they are losing value. In addition, it was suggested that active managers might be able to exploit the fact that a higher proportion of the market will be passively invested, since its behaviour will be predictable. As such, active managers may be able to increase their profits at the expense of the Scheme.

#### Environmental, Social and Corporate Governance Policies

4.84 Respondents from the public, private and civil society sectors all highlighted the importance of ensuring that administering authorities could still implement their environmental, social and corporate governance policies. This was thought to be particularly important where an administering authority had signed up to the UN Principles of Responsible Investment. Some responses felt that a passive management approach would prevent the administering authorities from carrying out these policies. For example, an index tracking passive fund could include an organisation that did not meet their environmental standards. Others referenced the Professor Kay Review into the UK Equity Market and Long Term Decision Making,<sup>5</sup> suggesting that the benefits of good stewardship advocated by Professor Kay, such as playing an active role as a shareholder, could be lost if passive management was used.

#### **Government response**

4.85 The Government has considered the responses received and arguments put forward surrounding the use of passive management. Recognising the different needs of each authority, the Government has invited authorities to develop their own proposals to pool their assets. In so doing, authorities will need to address the criterion of reduced costs and excellent value for money. This places the emphasis on authorities to transparently assess their investment costs and fees, and to set out the savings they can deliver over the long term as a result of pooling.

4.86 The Government recognises that both active and passive management have a role to play in the Local Government Pension Scheme. However, authorities should only use active fund management where it can be shown to deliver value for money, and authorities should review how fees and net performance in each listed asset class compare to a

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<sup>5</sup> <https://www.gov.uk/government/consultations/the-kay-review-of-uk-equity-markets-and-long-term-decision-making>

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.

## Alternative proposals for reform, and deficit reduction in particular

4.87 The consultation also asked respondents to put forward their proposals for reducing deficits. Some respondents took the opportunity to stress that the deficits had arisen for a number of complex and varied reasons, such as contribution holidays, low gilt yields and increasing longevity. Others offered alternative governance, investment and administration reforms, intended to improve performance or address deficits.

### Improving governance and reporting

4.88 Some respondents felt that improving decision making and governance would lead to higher returns and so help to reduce the deficits. It was argued that decision making would improve with the publication of more data and performance reports, such as:

- Implementing and reporting against the Myners Principles;<sup>6</sup>
- Improving the information provided to beneficiaries, so that they can better understand where the assets are being invested;
- Introducing regulations to require the setting, monitoring and reporting of progress against agreed governance objectives.

4.89 A few submissions also called for greater professionalization of the management of the Scheme, wanting more in-house expertise able to develop and implement investment strategies.

4.90 Alternatively, a small number of respondents advocated an employer focused approach. They proposed establishing administering authorities for larger groups of employers, such as academies or higher education institutes, which may have a common deficit and cash-flow profile. This was thought to offer these employers a greater role in the governance of the Scheme and an investment strategy that better met their circumstances and so was more likely to drive down their proportion of the existing deficit.

### Long term focus

4.91 However, some respondents were concerned that a focus on deficit reduction may lead to a short-term view of performance and lower returns. They argued that administering authorities should adopt a longer-term approach, for example reviewing performance annually rather than quarterly, as recommended by Professor Kay in his Review of UK Equity markets and Long-term Decision-making. It was thought that a longer term approach would lead to high investment returns and therefore reduce the deficit.

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<sup>6</sup> <http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf>

It is still the case that a large majority of funds will hold their asset managers to account for quarterly performance, driving short-term behaviour. Hymans Robertson identify the retention of managers for the long-term, “even through inevitable periods of underperformance”, as a key characteristic of the top ten performing funds they looked at. We believe performance and fees should be structured over time-frames that are measures in multiple years, rather than quarters.

Sarasin & Partners LLP

### **Government response**

4.92 The Government agrees that authorities should take a long-term view of their investments. The consultation on revoking and replacing the existing Investment Regulations 2009 proposes to remove the requirement to review managers’ performance quarterly, encouraging a longer-term view. The criteria for reform also make clear that authorities will wish 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.

# Annex A: List of respondents

330 Consulting Limited  
Adams Street Partners  
AGF International Advisers Co. Ltd  
AllenbridgeEpic Investment Advisers Limited  
AllianceBernstein Limited  
Allianz Global Investors  
Angela Pober  
Aon Hewitt  
AquilaHeywood  
Association of Investment Companies  
Association of Pension Lawyers  
Association of Real Estate Funds  
Association of School and College Leaders  
Aviva Investors  
Avon Pension Fund  
AXA Investment Managers  
Baillie Gifford & Co  
Baring Asset Management  
London Borough of Barking and Dagenham  
Barnett Waddingham LLP  
Barry Town Council  
Bedfordshire Pension Fund  
London Borough of Bexley Pension Fund  
Bfinance UK Limited  
BlackRock  
BNY Mellon  
Brent Pension Fund  
British Private Equity and Venture Capital Association  
British Property Federation and Investment Property Forum  
London Borough of Bromley  
Buckinghamshire County Council Pension Fund  
Cambridgeshire Pension Fund  
London Borough of Camden Pension Fund  
Capital Dynamics  
Capital Group  
Cardiff and Vale of Glamorgan Pension Fund  
Carmarthenshire County Council  
CBRE Capital Advisors Limited  
CBRE Global Investors  
CFA Society of the UK  
Charles Stanley Pan Asset Capital Management Limited  
Cheshire Pension Fund  
Chris Bilsland  
Chartered Institute of Public Finance and Accountancy (CIPFA)  
City and Council of Swansea Pension Fund

City of London Corporation  
Clerus  
Clwyd Pension Fund  
Cornwall Pension Fund  
Councillor John Fuller  
London Borough of Croydon  
Cumbria Pension Fund  
Debra Hopkins  
Deloitte  
Derbyshire County Council Pension Fund  
Devon County Council Pension Fund  
Devon County UNISON  
Dorset County Pension Fund  
Durham County Council Pension Fund  
London Borough of Ealing  
East of England LGA  
East Riding Pension Fund  
East Sussex Pension Fund  
London Borough of Enfield  
Environment Agency  
Eric Lambert  
Essex Pension Fund  
F&C Investment Business Ltd (Private Equity Funds)  
F&C Investment Business Ltd (Sales and Client Relationships)  
Fidelity Worldwide Investment  
First State Investments  
Fred Green  
Generation Investment Management LLP  
Gloucestershire Pension Fund  
GMB  
Greater Gwent Pension Fund  
Greater Manchester Pension Fund  
Gwynedd Pension Fund  
London Borough of Hackney  
Hampshire County Council  
HarbourVest Partners UK Limited  
London Borough of Haringey Pension Fund  
Henderson Global Investors  
Hermes Fund Managers  
Hertfordshire County Council  
London Borough of Hounslow  
Hymans Robertson LLP  
Insight Investment  
Invesco Perpetual  
Investec Asset Management  
Investment Management Association  
Islington Pension Fund  
JLT Employee Benefits  
John Raisin Financial Services Limited



Joint response from civil society organisations  
Jupiter Asset Management Limited  
Kent County Council Pension Fund  
London Borough of Lambeth  
Lancashire County Pension Fund  
Lazard Asset Management - UK  
Legal and General Investment Management  
Leicestershire County Council Pension Fund  
Leslie Robb  
Linchpin IFM, now providing advisory services as City Noble Limited  
Lincolnshire Pension Fund  
Local Government Association  
Lombard Odier Asset Management (Europe) Limited  
London Councils  
London Pension Fund Authority  
Longview Partners  
Loomis Sayles Investments Limited  
M&G Investments  
Majedie Asset Management Ltd  
Manchester City Council  
Mark Solomon  
Markham Rae LLP  
Mercer Limited  
Merseyside Pension Fund  
London Borough of Merton  
MFS International (UK) Limited  
Milton Keynes Council  
MSCI  
National Association of Pension Funds  
National Housing Federation  
National LGPS Frameworks  
Natixis Global Asset Management (UK) Limited  
Neuberger Berman  
London Borough of Newham  
Newton Investment Management Limited  
Nomura Asset Management UK Limited  
Norfolk Pension Fund  
North Yorkshire Pension Fund  
Northamptonshire Pension Fund  
Northern Trust  
Northumberland County Council Pension Fund  
Nottinghamshire Pension Fund  
Osborne Clarke  
Oxfordshire Pension Fund  
Pantheon Ventures (UK) LLP  
Partners Group (UK) Limited  
Peter Moon  
Pictet Asset Management  
PIMCO

PricewaterhouseCoopers LLP  
Principles for Responsible Investment  
Pyrford International Limited  
London Borough of Redbridge  
Rhondda Cynon Taff Pension Fund  
London Borough of Richmond Upon Thames  
Rogge Global Partners  
Royal Borough of Greenwich Pension Fund  
Royal Borough of Kingston Upon Thames Pension Fund  
Royal Borough of Windsor and Maidenhead  
Royal London Asset Management  
Ruffer LLP  
Russell Investments  
Sarasin & Partners LLP  
Schroders  
Shadow Scheme Advisory Board  
Shropshire County Pension Fund  
SKAGEN Funds  
Society of County Treasurers  
Society of London Treasurers  
Society of Pension Consultants  
Society of Welsh Treasurers  
Somerset County Council Pension Fund  
South Yorkshire Pensions Authority  
Squire Patton Boggs (UK) LLP  
Staffordshire Pension Fund  
Stamford Associates Limited  
Standard Life Investments  
State Street Global Services  
Steve Bloundele  
Suffolk Pension Fund  
Surrey Pension Fund  
London Borough of Sutton  
Tameside Council  
Teesside Pension Fund  
Threadneedle Investments  
Torfaen County Borough Council  
London Borough of Tower Hamlets  
Towers Watson  
Tri-Borough pension funds (City of Westminster; London Borough of Hammersmith and Fulham; and the Royal Borough of Kensington and Chelsea)  
Tyne and Wear Pension Fund  
UBS Global Asset Management  
UK Sustainable Investment and Finance Association  
Unigestion (UK) Limited  
UNISON  
Unite  
Universities & Colleges Employers Association (UCEA)  
Vale of Glamorgan Council

London Borough of Waltham Forest  
Wandsworth Council  
Warwickshire Pension Fund  
West Midlands Integrated Passenger Transport Authority  
West Midlands Pension Fund  
West Sussex County Council Pension Fund  
West Yorkshire Pension Fund  
Western Asset Management Company Limited  
Wiltshire Pension Fund  
Worcestershire County Council