

Avon Pension Fund

Local Government Pension Scheme

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Liam Robson
LG Pensions Team
MHCLG

Dear Liam,

Thank you for the opportunity to respond to the consultation on the Statutory Guidance on Asset Pooling. This response is from the Avon Pension Fund.

The Fund agrees with much of the guidance and welcomes the consolidation of the existing guidance in one document. Our comments on specific sections of the guidance are as follows:

Section	Draft guidance / AVON comment
3.2	<p><i>In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:</i></p> <ul style="list-style-type: none"> <i>the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external</i> <i>the management of internally managed investments</i> <i>the provision and management of pool vehicles including pool funds</i> <p><i>It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.</i></p> <p>AVON comment – This is a useful clarification but states the pool company makes decision whether to in house or external. It should be for the shareholders of the pool if wholly owned to decide whether to have in house capability as strategic / business model decision.</p>
3.6	<p>Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.</p> <p>AVON comment - There is a danger if focus purely on net return after cost as means not taking risk or volatility into account. This guidance is too simplistic and potentially encourages short termism. Also strategic asset allocation remains responsibility of pool members, reflecting scheme specific liability and cash-flow forecasts.</p>

4.3	<p>Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.</p> <p>AVON comment - Need to amend wording as committee members are not only elected members, so add “or appointed” after “elected”</p>
4.4	<p>Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.</p> <p>AVON comment - Reinforces long term objective of pooling and the need to balance needs of local fund and pool as a whole. However, pool members cannot be expected to have sight of activities of scheme as a whole so should remove “and across the scheme as a whole”.</p>
5.1	<p>Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.</p> <p>AVON comment - This is too simplistic. Market conditions and strategic changes will dictate the pace of transition, as will the capacity of the pool to manage each transition successfully. A poorly executed transition will inevitably incur higher transition costs that will be passed onto pool members.</p>
5.4 & 5.5	<p>5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.</p> <p>5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts (‘life funds’) accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.</p> <p>AVON comment - This should not just reference infrastructure as equally applicable to other private market assets especially closed ended funds or illiquid assets. Whether the pool company manages these assets in interim or not must depend on capability and capacity of the pool company.</p> <p>In addition, 5.6 more than adequately covers the principles set out in 5.4 and 5.5. Therefore recommend that 5.4 and 5.5 should be deleted.</p>
6.1	<p>Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.</p> <p>AVON comment – We agree but it needs to be clear that the decision must be led by the pool member, taking the interests of wider pool into account.</p>

6.2	<p>A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:</p> <ul style="list-style-type: none"> • Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment. <p>AVON comment – We understand the desire to limit non pooled assets but where linked to particular liability profile this may exceed 5%, so what is rationale for the limit in this instant?</p>
6.3	<p>Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.</p> <p>AVON comment - This implies pool members can make their own decision to invest via another pool if offered choice. As drafted it could undermine the interests of other pool members; suggest adding at the end “where this is not to the detriment of the pool overall.”</p>
7.4 & 7.5	<p>AVON comment – Defining infrastructure assets is problematic. There is some cross over between infrastructure and other asset classes such as property and secured income as these can also invest in non-commercial property and infrastructure assets to meet their investment objectives. Therefore pool members should be encouraged to consider showing look through exposure to infrastructure rather than just strategic allocation to an asset class.</p>
8.1	<p>Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance <i>Preparing the Annual Report</i>, with effect from the 2018-19 report.</p> <p>Avon comment – only 8.1 is required as 8.2- 8.9 is too detailed and therefore at risk of becoming outdated. 8.1 should be more general to say that “Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, in line with CIPFA or other relevant guidance.”</p>

Yours sincerely,



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