LONDON BOROUGH OF HARROW

LGPS Pooling Consultation (Next Steps on Investments)

London Borough of Harrow (LBH) Pension Fund Draft Response

LBH as administering authority of Harrow Council Pension Fund, welcomes the Government's consultation that is well overdue and in large supports the majority of the proposals, indeed many of the proposals the LBH already does, such as member training and objective setting for consultants.

1. Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

   Yes - Pools have facilitated joint procurement which has led to reduced fees some have complex structures that are expensive to run. Fund Managers have recognised that to be competitive, they need to offer discounts for LGPS client even when dealing outside the Pool. They have achieved this through the use of LGPS Share Classes which aggregate all LGPS AUM irrespective of which Pool they are in and avoid the addition charges incurred if the investment was made via the Pool. A good example of how this works is the JPMorgan Infrastructure Investment Fund which charges c50bps for a global infrastructure mandate, which is much lower than that offered through Pooling.
   The current proposals restrict the ability for individual Funds to capitalise on offers such as these and risk increasing the burden on the public purse by forcing them to invest in products that are sub par as they only have access to those offered by their Pool. Placing these restrictions and complexities is at odds with other parts of Government legislation (eg Procurement Bill) which is aimed at reducing bureaucracy, creating local opportunities and strengthen authorities abilities to manage poor performance all of which is lost if we can only invest via one Pool.

2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

   No - No consideration has been given to the cost of transferring assets. Just because assets are liquid does not mean that transaction costs incurred through bid/offer pricing, stamp duty, etc are immaterial. A much more pragmatic way of managing this is to scrap arbitrary dates and focus on strategic decisions that matter e.g., prohibit any new managers being appointed for liquid assets that conflict with the regulations. Funds should be allowed to continue with existing arrangements that demonstrate they achieve better value for money than the options offered by their Pool. Similarly, they should be allowed to invest in strategies that are not offered by their Pool as the proposed regulations could hinder a Fund's ability to meet its strategic objectives and therefore increase the burden on the public purse.

3. Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

   No - Pools and Funds should be given flexibility to enable them to find the most pragmatic way to work together. Guidance should however set out how Pools can interact with Funds outside their Pool including offering them their services which would ensure that there are options available for all Funds to meet their strategic objectives in the most cost effective manner.

   The consultation refers to there being a smaller number of pools in the future - facilitating the ability to invest in the most appropriate pool for your need would enable those pools which deliver real value to flourish and drive further efficiencies. Therefore, if the long term aim of the Government is to have fewer but larger pools they should allow healthy competition to determine how this is achieved rather than introducing other allegiances or politics in determining mergers.

4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

   Yes - Committees are responsible for approving Investment Strategies that are worth billions of pounds. As such all Members of the Committee should be adequately trained so that they fully understand the impact of the decisions they are making.

5. Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

   Each Fund will have its own objectives based on its risk appetite, funding level and cash flow and therefore it is not sensible to have a common benchmark to compare one another to. How can you compare a passive equity fund to an active focussed one that enables a high tracking error or has a high income target- they are simply not comparable.

   Furthermore, manager selection has transferred to Pools so if any direction on benchmarks is to be given, this should focus on how Pools compare with one another.

6. Do you agree with the proposals for the Scheme Annual Report?

   Yes

7. Do you agree with the proposed definition of levelling up investments?

Yes - the wording is sufficiently flexible to enable a broad range of investments to be considered.

8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

   We fully support the ability to invest in another pool's product however this should be a direct relationship rather than being administered via their own which delivers no value and increases cost and bureaucracy.

9. Do you agree with the proposed requirements for the levelling up plan to be published by funds?

   No as this delivers no meaningful benefits for the Fund. Funds are already expected to publish their plans for Pooling, tackling climate change and many other key metrics.
   Pension Funds are there to serve the best interest of members and local taxpayers not the Government's own priorities.
   Setting an arbitrary 5% target and setting out plans how this will be achieved conflicts with the statutory guidance for Regulation 7 (2)(c) which states:
   "The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters."

10. Do you agree with the proposed reporting requirements on levelling up investments?

    No - see response to Q9.
    The Fund is able to report on its UK investments but does not accept that this should be labelled as "levelling up investments" as it infers it is part of a government agenda rather than generating value for members and local taxpayers.

11. Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

    No - Private Equity investments carry a much higher risk than many other asset classes and therefore any investment should only be made if having taken appropriate investment advice. The amount allocated to such an investment should be based on many factors which include risk appetite; current funding levels; discount rate; a fully diversified portfolio, etc which will be unique to the individual Fund.

Therefore, setting a blanket ambition for all Funds conflicts with Regulation 7(2) (a) Investment Regulations 2016 which states that the guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

    No - see response to Q11

13. Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

    Yes - LBH already sets these objectives, as per the requirements of the Competition and Markets Authority (CMA).

14. Do you agree with the proposed amendment to the definition of investments?

    Yes

15. Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

    Yes- the proposals seek to restrict further the way individual Funds invest by curtailing the opportunity to invest outside of their Pool. Rather than help deprived areas as referred to in paragraph 110 restricting investing can hinder returns which can result in increased contributions for employers thereby reducing the resources the administering Councils have to support local vulnerable client groups.