

Pooling Proposal from the Croydon Council LGPS Pension Fund

This document represents Croydon Pension Fund's commitment to pooling assets as requested by the Department for Communities and Local Government. It describes the steps taken to date by referencing the London CIV.

Introduction

Croydon Council has actively supported the London CIV project from its inception and advocates its use to enable more effective investment decisions, drive down fund manager fees, and pool scarce resources.

Croydon, in acknowledging the potential of the CIV to deliver savings which could help bolster investment returns, stresses the primacy of the Council and Croydon Pension Committee in carrying out its fiduciary duty, in particular with reference to asset allocation decisions, setting and spending a risk budget and applying environmental, social and corporate governance factors. It is important that decisions relating to asset allocation remain within the control of the local administering authorities and the Council welcomes the fact that the guidance acknowledges this. In particular, the pooling exercise should not erode local responsibility for ensuring that the Council's position on ESG issues is reflected in the way that the Pension Fund's assets are invested.

The Council, noting the lack of any opportunity to be consulted on this proposal, urges the DCLG to note that there are certain areas of concern that have not yet been addressed and which are fundamental to the future success of this project.

These issues include:

- Concerns that ring-fencing pools will constrain choice; result in additional costs to fund managers; and deliver sub-optimal outcomes through enforced duplication of effort.
- A lack of clarity relating to benchmarking of fees and a lack of recognition of previous efforts to drive down costs;
- Uncertainty around the treatment of ESG issues, in particular with regards to filtering for tobacco manufacturers, fossil fuels, arms manufacturers, nuclear power and embargoes relating to certain regions.
- Definition and measurement of benefits of scale, including identifying what should be considered best practice in operating pools.

Finally, the Council is concerned that the costs of putting these arrangements in place, transitioning assets and compromising to meet common investment goals should not reflect adversely on the current actuarial valuation and hence on the finances of the Council.

THE CROYDON PROPOSAL

The London CIV

Croydon opts to meet the obligation to pool Pension Fund investments primarily through its stakeholding in the London CIV.

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The CIV represents the most advanced structured exploration of the potential for collaborative investment within the LGPS. It has established governance arrangements based on existing, tested structures. A detailed description of how the CIV will deliver pooling across London has been drafted by the officers of the CIV. This response is included in the Croydon submission as Appendix A. It illustrates how the London CIV meets the four criteria set out in '*Local Government Pension Scheme: Investment Reform Criteria and Guidance*' (DCLG November 2015) and provides details of the membership of the pool, the potential assets to be managed and a description of the governance arrangements.

For the purpose of this submission, the details set out by the London CIV should be considered to apply to the Croydon Pension Fund, in terms of the timetabling for establishing sub-funds, the opportunities for transitioning funds and forecasts of future savings.

Croydon expects to continue to work with the CIV, using its influence as a stakeholder, to optimise investment opportunities. However, the Council believes that it is fundamental to retain the flexibility that not all investments need to be concentrated in one pool. Consequently, for the purpose of establishing the principles which underpin this submission, Croydon intends to retain the flexibility to invest in other pools where there is a suitable match and to keep certain assets or asset classes outside of pooling arrangements.

The following paragraphs address the circumstances where Croydon will not, initially, conform to the arrangements set out in the London CIV document or where the proposal addresses local arrangements.

Local Arrangements

Croydon Council is committed to transition appropriate elements of its existing LGPS Fund into the London CIV, in the timescales set out in the London CIV's response, notably with the exception of a 1% allocation to cash which acts as working capital and will continue to be managed in-house.

Croydon Council recognises there are potential issues in transitioning assets in to the CIV, these being:

- the cost and practicalities of unwinding illiquid assets;
- the cost (direct and opportunity) of transitioning assets;
- the grouping of certain alternatives due to their legal structures;
- the ability of the CIV to offer suitable investments which meet Croydon's investment objectives, including those in respect of ESG.

In addressing the issues above Croydon intends to retain the flexibility to invest with other pools which can offer a suitable investment or even outside of any pooling arrangement if deemed appropriate.

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Other than these specific instances and issues arising from the afore-mentioned matters, Croydon Council anticipates all assets, (equities and fixed interest investments) will be transitioned according to the timetable developed by the CIV.

The governance arrangements for the CIV are modelled on existing structures developed by London Councils. This provides a level of assurance that they will be sufficient to allow elected members to monitor the work of the CIV. This should be sufficient to guarantee compliance with the Council's Statement of Investment Principles and Funding Strategy.

The Pension Committee's business plan has been amended to incorporate work on the LGPS Scheme Advisory Board's benchmarking and performance measurement indicators.

In the past the Croydon Fund has employed the services of a specialist consultancy to monitor complex transition exercises. This has resulted in savings to the Fund of *circa* £2m. It is likely that the same consultancy would be retained to assist in any complex transition of assets to the London CIV. The results of this exercise would be reported to the Croydon Pension Committee.

Several factors mitigate against forecasting potential future fee savings, including choice of investment style, (active or passive, growth or value; etc.), size of fund and changes in asset allocation strategy driven by external factors. Locally derived forecasts, in the absence of consistent guidelines and definitions, must be of limited benefit in assessing the overall benefit of this project. Consequently this proposal points to the London CIV's assessment of future cost savings, as attached.

Finally, the London CIV submission details how the improved capacity to invest in infrastructure shall be delivered. The Croydon Fund has a target allocation to infrastructure of 10% and £30m currently invested with a UK fund manager.