Appendix A

Response to Consultation on LGPS Fund Pooling: Croydon Council

We are writing to comment upon the recently published MHCLG draft statutory guidance on asset pooling.

References to the draft guidance are included at the end of the relevant paragraph and are in square brackets, hence: [reference].

We are responding in our capacity as the scheme administrator for the Local Government Pension Scheme at Croydon Council and have consulted with the Croydon Pension Committee Chair and Vice-Chair in drafting this response. The Council considers itself to be an interested party. It is disappointing that this approach has not followed the structure of a formal consultation, which we feel, would have been more appropriate. We would argue that, following this informal consultation, revised proposals should be prepared and a formal consultation carried out.

We have seen the proposed response from the London Collective Investment Vehicle and, in general, we support the points detailed in their response.

We are concerned that the consultation is silent on ESG issues. This comprises a significant component of the asset allocation process across many London funds and indeed funds across the country. Just as pooling funds amplifies the benefits of fee reductions and generates efficiencies, so it is possible for pooled funds to significantly influence the debate on many issues, such as tobacco, reduction in use of carbon fuels, stranded assets and arms manufacturers.

On the broad issue of cost control and transparency the presumption that contracts would be accessed through use of the National LGPS Framework is welcome. [3.5]

We are anxious that pooling does not fetter the discretion of LGPS schemes. For example, it should not direct towards either active or passive holdings. [3.6]

We consider that the guidelines should cover the option for certain funds to sit outside the pooling vehicle but count as being pooled assets. This arrangement offers the advantage of flexibility around moving between funds; competitive fees negotiated with the LGPS and pooling vehicle, so getting the economies being sought without the need to transfer and incur additional administration and cost. These arrangements already exist in London and it would be helpful if the guidance could endorse this established option. [8.3]

Reporting in line with the Code of Transparency will be challenging as, at present, private market funds fall out of scope. The proposed Guidance seems to be out of step with the pace of development and adoption of the Code. For Croydon 25% of the portfolio is invested in alternate assets sitting outside the scope of the Code. [8.7]

We are concerned about the restrictions on non-pool investments, both new and existing. Our comments would be as follows:

- The limit of 5% is too low, to allow the necessary flexibility for pools, both in terms of type of investment and also more specific criteria such as ESG requirements of a particular authority.
- The timescale for moving to this position, even for new investments, is too short, notably because the pooling vehicles are gradually procuring funds but will not have a full range for some years, thus limiting diversification.
- This does not recognise that there are, sometimes, highly illiquid assets. For example, the Croydon Fund has a class of assets that is effectively illiquid for the next 39 years.
- This proposal would restrict local investments or direct (e.g. infrastructure) investments in a particular area.

[6.1 to 6.4]

The option of investing in other pools' funds has some real attractions and would, potentially, increase the range of funds available. There are, however, some concerns:

- Fee structure, i.e. would it have to be the same for members and non-members and, if not, how would this be determined
- Complications for pooling vehicles in their negotiations with fund managers as the potential assets under management would be much less certain
- Implications for the resourcing of pooling vehicles as they would potentially have many more schemes to interface with, so the running costs of all pooling vehicles could increase
- Regulatory implications given that there would be a different relationship, i.e. current pooling vehicles' clients are restricted to their own shareholders.

[6.3]

As we said at the beginning of this letter, we hope that this informal consultation leads to revised draft guidelines subject to a formal consultation.