

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Asset Pooling Update		
<b>KEY DECISION</b>	No	<b>Item No:</b>	
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Acting Chief Finance Officer		
<b>CLASS</b>	Part 1	<b>Date:</b>	February 2019

## **1. PURPOSE**

- 1.1. This paper presents the recently published MHCLG draft statutory guidance on asset pooling and outlines key points raised by the guidance, whilst also presenting a timetable from the Fund's advisors on the recommended priorities for mapping the Fund's existing assets to the London CIV.

## **2. RECOMMENDATIONS**

- 2.1. Members are asked note the contents of the report, and agree to the following recommendations:

2.1.1. In regards to the MHCLG guidance document, provide any feedback to officers before the 28 March deadline, as per Section 3.

2.1.2. In regards to the proposed timetable for transition of assets to the LCIV, discuss the timeline put forward and agree on the priorities outlined.

## **3. MHCLG CONSULTATION**

- 3.1. In January 2019 the MHCLG published its draft statutory guidance on LGPS asset pooling, inviting views through an informal consultation with interested parties until 28 March 2019.

- 3.2. The draft guidance is attached at Appendix 1 for Members' consideration.

- 3.3. Hymans Robertson have provided a factual summary of the points raised in the guidance, which is attached at Appendix 2.

- 3.4. Some key points to highlight from the guidance (with reference to the relevant paragraphs) are as follows:

- Pool members should transition assets into the pool as quickly and cost effectively as possible (5.1);
- Inter-authority payments may be desirable to share transition costs equitably between pool members (5.2);

- In exceptional cases, some existing investments may be retained by pool members on a temporary basis to maturity if the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so (5.4);
- Pool members should normally make all new investments through the pool company to maximise benefits of scale. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances (6.1);
- A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member. These assets should not normally exceed an aggregate 5% of the pool member's assets at the point of investment (6.2);
- Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation can deliver improved net returns. (6.3);
- There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area (7.2);
- All residential property is included in the official CIPFA definition of infrastructure assets (7.5);
- New extensive reporting requirements for pool members come into force with effect from the 2018/19 annual report, with a requirement to report on the costs and performance of pooled assets, the progress of any transition plans and a rationale for all assets that continue to be held outside the pool, including a planned transition date and a comparison of costs to any comparable pool vehicle (8.1 onwards);
- The definition of pooled assets excludes passive investment in life policies held directly by pool members, or any asset where a pool member retains the day to day management or responsibility for selecting or reappointing an external manager (8.4).

3.5. Members are asked to consider the guidance attached and provide any feedback to officers ahead of the 28 March deadline; officers will coordinate responses and respond to MHCLG on behalf of the Committee.

#### **4. TIMETABLE FOR LCIV INVESTMENT CONSIDERATION**

4.1. Hymans Robertson, following discussion with Members at previous meetings, have put together a suggested timetable and list of priorities for discussing and planning the transition of the Fund's existing assets or mandates to the LCIV. The report attached at Appendix 3 outlines the proposed actions for consideration

4.2. Officers recommend that the Committee discuss the proposed timeline and provide feedback to the Fund's advisors for incorporating transition plans into the business plan for the year ahead.

#### **5. FINANCIAL IMPLICATIONS**

5.1. There are no financial implications arising directly from this report.

## **6. LEGAL IMPLICATIONS**

6.1. The MHCLG guidance builds on previous Ministerial communications and guidance on investment strategies, taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

6.2. The guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance*, issued in November 2015.

6.3. In considering the future strategy of the Fund following the 2019 valuation, and the transition of assets to LCIV, the 2016 Regulations require that the administering authority must take proper advice from a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters.

## **7. CRIME AND DISORDER IMPLICATIONS**

7.1. There are no crime and disorder implications directly arising from this report.

## **8. EQUALITIES IMPLICATIONS**

8.1. There are no equalities implications directly arising from this report.

## **9. ENVIRONMENTAL IMPLICATIONS**

9.1. There are no environmental implications directly arising from this report.

## **APPENDICES**

**Appendix 1** – MHCLG Consultation Paper

**Appendix 2** – Hymans Robertson Consultation Summary

**Appendix 3** – Hymans Robertson Asset Pooling Draft Timeline

## **FURTHER INFORMATION**

If there are any queries on this report or you require further information, please contact either:

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