Suffolk Pension Board

(Quorum 2)

Scheme Employer Representatives

Councillor Richard Smith MVO representing Suffolk County Council

Homira Javadi, representing all Borough, District, Town and Parish Councils

Kate Harrison, representing all other employers in the Fund

Scheme Member Representatives

Suzanne Williams, representing the Unions

David Rowe, representing Active Members

Eric Prince, representing Pensioners

Date: Wednesday, 16 December 2015

Venue: Rose Room
Endeavour House
8 Russell Road
Ipswich, Suffolk, IP1 2BX

Time: 11:00am

For further information on any of the agenda items, please contact Ann McPherson, Democratic Services Officer, on 01473 264379.

1. **Apologies for Absence**

   To note and record any apologies for absence received.

2. **Declarations of Interest and Dispensations**

   To receive any declarations of interests, and the nature of that interest, in respect of any matter to be considered at this meeting.

3. **Minutes of the Previous Meeting** Pages 5 - 10

To approve as a correct record, the minutes of the meeting held on 28 September 2015.

4. **Government Consultation on the Pooling of Assets** Pages 11 - 78

To receive a presentation on the latest information on the Government's intention for the pooling of Pension Fund Assets.

5. **Compliments and Complaints** Pages 79 - 90

To receive a report summarising the compliments and complaints received by the Fund's administration team.

6. **Investment Managers** Pages 91 - 114

To consider the investment manager arrangements in place for the Suffolk Pension Fund.

7. **Forward Work Programme** Pages 115-118

To agree a forward work programme for the Board.

8. **The Board is invited to consider whether agenda item 9 and 10 should be taken without the Public (including the Press) present.**

To consider whether the public (including the press) should be excluded from the meeting during consideration of agenda item 9 and 10 as per paragraph 31 in the Rules of Procedure.

Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

9. **Asset Allocation** Pages 119-146

To consider the asset allocation in place for the Suffolk Pension Fund.

10. **Investment Manager Expenses** Pages 147-158

To receive a report on the costs of investment management to the Fund

Date of next scheduled meeting – Friday, 11 March 2016 at 11:00 am.

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Telephone: 01473 264379;

Email: Committee.Services@suffolk.gov.uk; or by writing to:

Democratic Services, Suffolk County Council, Endeavour House, 8 Russell Road, Ipswich, Suffolk IP1 2BX.

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4. Use the stairs, not the lifts.
5. Do not re-enter the building until told it is safe to do so.

Deborah Cadman OBE
Chief Executive

Suffolk County Council

Unconfirmed

Minutes of the Suffolk Pension Board meeting held on 28 September 2015 at 11:00 am in the Elisabeth Room, Endeavour House, Ipswich.

Present:	Councillor Richard Smith (Chairman), representing Suffolk County Council, David Rowe (Vice Chairman), representing Active Members, Kate Harrison, representing All Other Employers in the Fund, and Eric Prince, representing Pensioners.
Also present:	Stuart Potter (Pensions Operations Manager)
Supporting officers present:	Paul Finbow (Corporate Finance Specialist), Sharon Tan (Specialist Accountant – Pensions), Lynn Wright (Strategic HR Pensions & Payroll Manager) Ann McPherson (Committee Administrator)

Public Participation Session

There were no applications received from the public.

1. Apologies for Absence and Substitutions

Apologies were received from Homira Javadi, representing Borough, District, Town and Parish Councils and Suzanne Williams, representing the Unions.

2. Declarations of Interest and Dispensations

The following Board members declared a local non-pecuniary interest by virtue of the fact that each was a contributing member of the Local Government Pension Scheme:

Councillor Richard Smith, MVO

David Rowe

Eric Prince

Eric Prince declared a local pecuniary interest by virtue of the fact that he is in receipt of a pension from the Local Government Pension Scheme.

3. Minutes of the Previous Meeting

The minutes of the meeting held on 24 July 2015 were confirmed as a correct record and signed by the Chairman.

4. Pension Fund Annual Reports and Statement of Accounts 2014-15

The Board received a report at Agenda item 4 providing them with a copy of the Annual Report and Accounts published by the Suffolk Pension Fund and the opinion issued by the Fund's auditors, Ernst & Young.

The Board were told that the accounts were accepted by the Pension Fund Committee at the meeting on 24 September 2015 and approved by the Audit Committee on 25 September 2015. The documents are to be published on the Suffolk Pension Fund website.

The Board were asked to produce an article for the next edition of the Pensioners Newsletter, the Chairman and Vice Chairman to approve the wording before publication. The newsletter would also mention the implementation of the Suffolk Pension Board.

The Board requested that a message be added to payslips saying that the Annual Report and audited Accounts were now available and provide the link to them on the website.

A discrepancy in the figures for Administration costs noted in Appendix 1 and Appendix 2 of the Agenda Item was noted. This was explained as a difference in how the figures were calculated. The Board requested that if applicable a note giving the explanation should be added in next year's accounts.

The Board requested that the Employers Meeting be brought forward from October in 2016 if possible.

The Board queried the substantial increase in Investment Management expenses to Winton, despite them only managing 2% of the Pension Fund. They heard that this was a hedge fund which performed incredibly well, part of the payment being a performance fee, which is only paid when performance is exceptional.

The Board were also asked to consider the report from Ernst & Young. They were told that at the time of the report there was a small amount of work outstanding. However, all work is now complete and the highest rating for the provision of the accounts was given by the auditors.

The Board gave praise to the officers concerned for the way in which they had managed changes throughout the year and thanked Sharon Tan for the high standard of work which went into the production of the accounts.

Decision: The Board agreed to note the accounts and the report from Ernst & Young.

Reason for Decision: The report contained matters relevant to the Board as the annual report and accounts are an important channel of communication to report on the Pension Fund's stewardship of the Pension Fund to employers, Scheme members and other stakeholders.

Alternative options: There were none considered.

Declarations of interest: Declarations of interest are reported at Minute number 2 of these minutes.

Dispensations: There were none reported.

5. Fund Investment Performance

The Board received a report at Agenda Item 5 to consider the Fund's investment returns against both market returns and those achieved by other LGPS funds. The report presented two sets of performance figures; the index or benchmark for individual managers and the comparison with other LGPS funds. The Board asked if there was a penalty for not meeting benchmark. They were told that if over a minimum of 3 years, benchmark was not met then there was the possibility of removing the manager as an investor. However, in practice, unless an extraordinary event occurs, the time period is usually longer than three years. Changes were made in 2011-12 to investment strategy which is now making an impact on long term performance.

Last year the Suffolk Pension Fund was 27th of 88 LGPS schemes. This year, despite losses in the first quarter, they are currently 24th, having mitigated the loss and therefore losing less than other schemes.

Decision: The Board agreed to note the report.

Reason for Decision: The Pension Board needs to be aware of the recent investment performance of the Fund.

Alternative options: There were none considered.

Declarations of interest: Declarations of interest are reported at Minute Number 2 of these minutes.

Dispensations: There were none reported.

6. Training needs for the Board Members

The Board received a report at Agenda Item 6 outlining the proposals for the delivery of training over the coming year.

It was agreed that Suzanne Williams, who had missed the half day training due to illness, would be brought up to speed at the next meeting.

The Board agreed that external training would be valuable. They were told that this was available within the Pension Fund Committee training plan and that Board members could access this training. Information regarding seminars and national training events will be offered to Board members as they arise.

The dates and content of the training provided for Pension Fund Committee members is to be circulated to all Board members.

It was agreed that a record of attendance at training events and seminars should be kept and that the Actuary should be invited to the December meeting to present to the Board.

Decision: The Board agreed the proposals for the delivery of training.

Reason for Decision: To comply with the Pensions Regulators requirements, members of the Pension Board must be able to demonstrate that they have the required knowledge and understanding of LGPS issues.

Alternative options: There were none considered

Declarations of interest: Declarations of interest are reported at Minute Number 2 of these minutes.

Dispensations: There were none reported.

7. Compliments & Complaints

The Board received a report at Agenda Item 7 providing the Board with details of the number of compliments and complaints received to enable them to determine any further action.

Decision: The Board agreed to note the report and agreed that no further action needed to be taken.

Reason for Decision: The report contained matters relevant to the Board.

Alternative options: There were none considered.

Declarations of interest: Declarations of interest are reported at Minute number 2 of these minutes.

Dispensations: There were none reported.

8. Draft Breaches policy

The Board received a report at Agenda Item 8 providing the draft Breaches Policy document for the Suffolk Pension Fund.

Decision: The Board agreed to note the report and, with minor amendments to wording within the document, to recommend that it be adopted by the Pension Fund Committee at their meeting on 30 November 2015.

Reason for Decision: The report contained matters relevant to the Board.

Alternative options: There were none considered.

Declarations of interest: Declarations of interest are reported at Minute Number 2 of these minutes.

Dispensations: There were none reported.

9. Forward Work Programme

The Committee received at Agenda Item 9, a copy of the Forward Work Programme.

Decision: The Board agreed to note the Forward Work Programme

Reason for Decision: The Forward Work Programme is a responsibility of the Board under its Terms of Reference.

Alternative options: There were none considered.

Declarations of interest: Declarations of Interest are recorded at Minute No. 2 of these minutes.

Dispensations: There were none reported.

10. Urgent Business

There was none reported.

The meeting closed at 12.43

Chairman

Suffolk County Council

Agenda Item 4

Suffolk Pension Board

Report Title:	Government Consultation on the Pooling of Assets
Meeting Date:	16 December 2015
Chairman:	Councillor Richard Smith MVO
Director:	Geoff Dobson, Director of Resource Management Tel. 01473 264347
Author:	Paul Finbow, Corporate Finance Specialist Tel. 01473 265288

Brief summary of report

1. This report provides the Pension Board with details of the Government criteria regarding the pooling of assets and the consultation on reforms to the Local Government Pension Scheme.

Action recommended

2. The Board is asked to note the report.

Reason for recommendation

3. The Pension Board is aware of the Government criteria for the pooling of assets and the preliminary work being undertaken by the Pension Fund.

4. There are no alternative options.

Main body of report

5. The Pension Fund Committee received a presentation on 30 November 2015 covering the investment reform criteria as set out by the Government and an update of the options being discussed which is attached as **Appendix1.**

6. On 25 November 2015, the Department of Communities and Local Government (DCLG) published a document, Investment Reform Criteria and Guidance. This is attached as **Appendix 2.**

7. The document states that it will be for the local authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals the authorities should have regard to each of the four criteria, set out below and the submission should describe how the criteria will be met:

   i) Asset pool(s) that achieve the benefits of scale.

   ii) Strong governance and decision making.

   iii) Reduced costs and excellent value for money.

   iv) An improved capacity to invest in infrastructure.

8. Initial responses are to be submitted by 19 February 2016 outlining the Fund's commitment to pooling and a description of their progress towards formalising their arrangements with other authorities.

9. A refined and completed submission is to be submitted by 15 July 2016 which should be in the form of a joint proposal from the participating authorities setting out the pooling arrangements in detail and from each individual authority detailing their commitment to, and expectation of, the pool and the rationale for any assets they intend to hold outside the pool.

10. The consultation, Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 was also published on 25 November 2015, with responses to a number of questions to be submitted by 19 February 2016. This is attached as **Appendix 3**.

11. The document sets out two main areas of reform:

    i) A package of reforms that propose to remove some the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. The changes proposed would move towards the "prudent person" approach to investment that applies to trust based pension schemes.

    ii) The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately, and that the guidance on pooling assets is adhered to, including a power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.

12. The consultation is seeking views on:

    i) Whether the proposed revisions to the investment regulations will give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk.

    ii) Whether the proposals to introduce the power of intervention as a safeguard will enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

13. All consultation responses will be reviewed and analysed. A Government response will then be published within three months, and subject to the outcome of the consultation, the resulting regulations laid in Parliament.

Sources of further information
a) None

Appendix 1

Agenda Item 4

Pooling Update – 16 December 2015

Investment Reform Criteria

Suffolk County Council

Published Criteria for Pooling

On the 25 November DCLG published their criteria under which pooling proposals will be judged. These are:-

A. Asset Pools that achieve the benefits of scale (at least £25bn of assets)
B. Strong Governance and decision making
C. Reduced costs and excellent value for money
D. An improved capacity to invest in infrastructure

Existing Property assets excluded from pool, however, new investments will be pooled.

DCLG's Pooling Timetable

25 November 2015

Publication of Criteria

19 February 2016

Individual Funds submit initial proposals to pool to DCLG

15 July 2016

Funds submit worked up proposals to pool to DCLG

Date unknown

Decision by DCLG

Expected 18 Months to create Structures etc

April 2018

Start of transfer of liquid assets

Other announcements

On the 25 November DCLG also published :-

A consultation response to “Opportunities for collaboration, cost savings and efficiencies” which closed in August 2014.

A new consultation entitled “Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

This consultation runs until to 19 February 2016.

Project Pool Update

Who are the ACCESS GROUP

- Bedfordshire Pension Fund
- Buckinghamshire Pension Fund
- Cambridgeshire Pension Fund
- Essex Pension Fund
- Hertfordshire Pension Fund
- Isle of Wight Pension Fund
- Norfolk Pension Fund
- Northamptonshire Pension Fund
- Nottinghamshire Pension Fund
- Oxfordshire Pension Fund
- Suffolk Pension Fund
- Surrey Pension Fund
- Warwickshire Pension Fund

Regional Update

Regional Structures

South West*	£17,087,535
South East	£37,816,063
London	£25,621,998
Midlands	£35,134,218
North West**	£31,233,345
North East	£33,376,148
Wales	£11,825,847
	£192,095,154

*includes Environment Agency

** includes Lancs/LPFA

Figures as at March 2014

Suffolk County Council

Who are the ACCESS GROUP

- Bedfordshire Pension Fund
- Buckinghamshire Pension Fund
- Cambridgeshire Pension Fund
- Essex Pension Fund
- Hertfordshire Pension Fund
- Isle of Wight Pension Fund
- Norfolk Pension Fund
- Northamptonshire Pension Fund
- Nottinghamshire Pension Fund
- Oxfordshire Pension Fund
- Suffolk Pension Fund
- Surrey Pension Fund
- Warwickshire Pension Fund

ACCESS GROUP Meeting 20 November

The undersigned Funds:

1. *reaffirm our commitment to working together to explore the opportunities and challenges of the Government's pooling agenda, to seek the best outcomes for our Funds and the wider LGPS individually and collectively (whether ultimately via this group or others or a combination thereof);*

2. *continue to support the LGPS owned initiative (being facilitated by Hymans Robertson) now known as project POOL, to develop a joined up proposal to Government, that allows the LGPS to speak with a clear, authoritative voice, focussed on a single or small number of options which satisfy the Governments criteria, backed up by well evidenced research data and analysis;*

3. *believe that individual Elected Members on LGPS s101 Committees will:*

    a. *require appropriate time to consider the findings of the project POOL proposal; and*

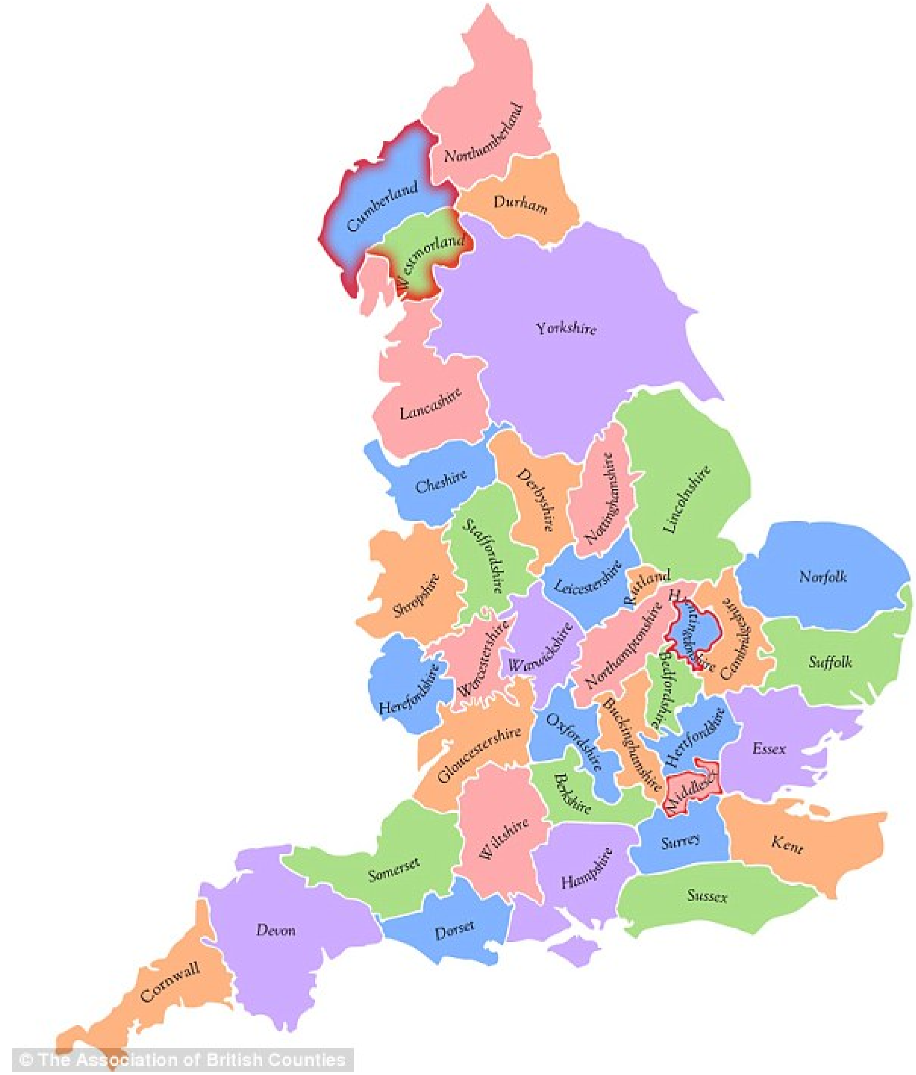
    b. *be better placed to consider the next steps for individual Funds in the light of such a proposal once finalised; and*

4. *consider that the optimum outcomes for all stakeholders will be centred around appropriate timescales which combine momentum with efficiently managed transition.*

Regional for Suffolk

	Fund Size (£bn)	Pool Size (£bn)
Suffolk	2.2	2.2
Norfolk	2.9	5.1
Cambridgeshire	2.3	7.4
Essex	4.9	12.3
Bedfordshire	1.7	14.0
Northamptonshire	1.9	15.9
Buckinghamshire	2.2	18.1
Hertfordshire	3.6	21.7
Kent	4.5	
Lincolnshire	1.8	
Surrey	3.2	
Oxfordshire	1.8	
East Sussex	2.8	
West Sussex	3.0	

All Fund Values at 31 March 2015



Suffolk County Council

Local Government Pension Scheme

Any Questions?

Suffolk County Council

Department for
Communities and
Local Government

Local Government Pension Scheme: Investment Reform Criteria and Guidance

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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Ministerial Foreword

At the summer Budget 2015, the Chancellor announced our intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance.

We have been clear for some time that the existing arrangements for investment by the Local Government Pension Scheme are in need of reform, and the announcement made plain our expectation that authorities would be ambitious when developing their proposals. The publication of these criteria and their supporting guidance marks a significant milestone on the road to reform, placing authorities in a strong position to take the initiative and drive efficiencies in the Scheme, and ultimately deliver savings for local taxpayers.

The Scheme is currently organised through 89 separate local government administering authorities and a closed Environment Agency scheme, which each manage and invest their assets largely independently. Recognising the potential for greater efficiency in this system, the coalition government first began to consider the opportunity for collaboration in 2013 with a call for evidence. Since then, we have been exploring the opportunities to improve; gathering evidence, testing proposals, and listening to the views of administering authorities and the fund management industry.

The Chancellor's announcement draws on this earlier work and in particular the consultation, *Opportunities for collaboration, cost savings and efficiencies,* published in May 2014 by the coalition government. More than 200 consultation responses and papers were received and analysed, leading to the development of a framework for reform that has administering authorities at its centre. The criteria published today make clear the Government's expectation for ambitious proposals for pooling, and invite authorities to lead the design and implementation of their own pools. The criteria have been shaped and informed by earlier consultations, as well as several conversations with administering authorities and the fund management industry which took place over the summer.

Working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes. The creation of up to six British Wealth Funds, each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth. I know that many authorities have already started to consider who they will work with and how best to achieve the benefits of scale. These early discussions place those authorities on a strong footing to deliver against our criteria, and I look forward to seeing their proposals develop over the coming months.

Marcus Jones

Criteria

1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

1.2 The following criteria set out how administering authorities can deliver against the Government's expectations of pooling assets.

1.3 It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, they should have regard to each of the four criteria, which are designed to be read in conjunction with the supporting guidance that follows. Their submissions should describe:

A. Asset pool(s) that achieve the benefits of scale: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. **Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

As part of their proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.

- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. **An improved capacity to invest in infrastructure:** Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Addressing the criteria

Requirements and Timetable

2.1 Authorities are asked to submit their initial proposals to the Government to LGPSReform@communities.gsi.gov.uk by 19 February 2016. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

2.2 Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

Assessing the proposals against criteria

2.3 The Government will continue to engage with authorities as they develop their proposals for pooling assets over the coming months. The initial submissions will be evaluated against the criteria, with feedback provided to highlight areas that may fall outside of the criteria, or where additional evidence may be required.

2.4 Once submitted, the Government will assess the final proposals against the criteria. A brief report will be provided in response, setting out the extent to which the criteria have been met and highlighting any aspects of the guidance that the Government believes have not been adequately addressed. In the first instance, the Government will work with authorities who do not develop sufficiently ambitious proposals to help them deliver a more cost effective approach to investment that draws on the benefits of scale. Where this is not possible, the Government will consider how else it can drive value for money for taxpayers, including through the use of the "backstop" legislation, should this be in place following the outcome of the consultation described below.

Transitional arrangements

2.5 Plans should be made to transfer assets to the pools as soon as practicable. Analysis commissioned by the Government from PricewaterhouseCoopers (PwC) indicates that, even those pooling mechanisms requiring supporting infrastructure, such as collective investment vehicles, could be established within 18 months. It is expected that liquid assets are transferred into the pools over a relatively short timeframe, beginning from April 2018. It is recognised that illiquid assets are likely to transition over a longer period of time. For the avoidance of doubt, investments with high penalty costs for early exit should not be wound up early on account of the pooling arrangements, but should be transferred across as soon as practicable, taking into account value for money considerations. Any assets that are held outside of the pool should be kept under review to ensure that arrangement continues to provide value for money.

2.6 While authorities will need to be mindful of their developing pooled approach, they should continue to manage both their investment strategies and manager appointments as they do now until the new arrangements are in place. In keeping with the investment regulations, they are still responsible for keeping both under regular review.

Support to develop proposals

2.7 To help authorities develop proposals quickly and efficiently, the Government has made available PwC's detailed technical analysis of the different collective investment vehicles and their tax arrangements at: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance. This paper is provided for information only. It does not represent the view of Government, and authorities should seek professional advice as needed when developing their proposals. Authorities are also strongly encouraged to learn from those who have already begun to develop collective investment vehicles, such as the London Boroughs or Lancashire and the London Pension Fund Authority.

Legislative context

2.8 At the July Budget 2015, the Chancellor also announced the Government's intention to consult on "backstop" legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others. That consultation has now been published and is available on the Government's website at: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme.

2.9 The consultation proposes to introduce a power for the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to guidance published by the Secretary of State. The intervention should be proportionate and subject to both consultation and review.

2.10 The draft regulations include a provision for the Secretary of State to issue guidance. Subject to the outcome of the consultation, authorities would then need to have regard to that guidance when producing their investment strategy. The Government proposes to issue this document as Secretary of State's guidance if the draft regulations come into effect. The guidance will be kept under review and may be updated, for example if the proposals for pooling that come forward are not sufficiently ambitious.

2.11 The consultation also proposes to replace and update the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to make significant investment through pooled vehicles possible.

Supporting guidance

3.1 This guidance is to assist authorities in the design of ambitious proposals for pooling investments and to provide ongoing support as they seek to ensure value for money in the long term. It will be kept under review to ensure that it continues to represent best practice.

A. Asset pool(s) that achieve the benefits of scale

Headline criterion: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.

3.2 The consultation, *Opportunities for collaboration, cost savings and efficiencies*, set out strong evidence that demonstrated how using collective investment vehicles and pooling investments can deliver substantial savings for the Local Government Pension Scheme without affecting investment performance. Additional advantages to pooling, which should further reduce costs and improve decision making in the long term, include:

- Increasing the range of asset classes to be invested in directly,
- Strengthening the governance arrangements and in-house expertise available to authorities,
- Improving transparency and long-term stewardship, and
- Facilitating better dissemination of best practice and performance data between authorities.

The case for collective investment

3.3 Published in May 2014, the analysis in the Hymans Robertson report evidenced that using collective investment vehicles could deliver savings. In the case of illiquid assets alone, they found that £240m a year could be saved if investments were channelled through a Scheme wide collective investment vehicle rather than the existing "fund of funds" approach.[1]

3.4 A review of the academic analysis available also supports the case for larger investment pools. For example, Dyck and Pomorski's paper, *Is Bigger Better? Size and performance in pension fund management*, established that larger pension funds were able to operate at lower cost than their smaller counterparts, through a combination of

[1] Hymans Robertson report: *Local Government Pension Scheme structure analysis,* p.3
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

improved negotiating power, greater use of in-house management, and more cost effective access to alternative assets like infrastructure.[2]

> A third to a half of the benefits of size come through cost savings realized by larger plans, primarily via internal management. Up to two thirds of the economies come from substantial gains in both gross and net returns on alternatives.

3.5 A number of respondents to the May 2014 consultation also set out the case for larger funds being able to access lower cost investments. London Councils, for example, estimated that savings of £120m a year could be delivered if £24bn was invested through the London collective investment vehicle (CIV), as a result of reduced investment management fees, improved performance, and enhanced efficiency.

3.6 Formal mechanisms of pooling, such as collective investment vehicles, offer additional benefits to alternative arrangements such as procurement frameworks. For example, Hymans Robertson explained that larger asset pools would increase the opportunities for buy and sell transactions to be carried out within the Scheme, reducing the need to go to the market and so minimising transaction costs. Their analysis found that this could reduce transaction costs, which erode the value of assets invested, by £190m a year.[3]

3.7 Pooling investments will also create an opportunity to improve transparency and information sharing amongst authorities. By having a single entity responsible for negotiating with fund managers and reporting performance, authorities can see what they are paying and generating in returns and how it compares with other authorities. Similarly, Lancashire County Pension Fund and the London Pension Fund Authority, who are developing a pool for assets and liabilities, anticipate economies of scale driving improved performance. They have recently estimated that by pooling they can achieve enhanced investment outcomes of £20-£30m a year from their current levels.[4]

Achieving appropriate scale

3.8 The Government expects all administering authorities to pool their investments to achieve economies of scale and the wider benefits of sharing best practice.

3.9 A move to larger asset pools would also be in keeping with international experience. For example, in Ontario, smaller public sector pension funds are being required to come together to form pools of around $50bn Canadian (approximately £30bn at the time the proposal was made). Similarly, Australian pension funds have been consolidating in recent years, where a formal review in 2010 recommended that each MySuper pension fund be required to consider annually whether they have sufficient scale and membership to continue as a separate pension fund.[5]

[2] Dyck and Pomorski, *Is bigger better? Size and Performance in Pension Plan Management*, pp.14-15
[3] Hymans Robertson report, pp.14-15
[4] Sir Merrick Cockell, writing in the *Pensions Expert* on 30 September 2015
[5] Government Response to the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, Recommendation 1.6,

3.10 The May 2014 consultation sought views on the number of collective investment vehicles to be established. Respondents stressed the importance of balancing the need for scale with local input and practical governance arrangements. It was also argued that while larger asset pools would deliver greater savings, the potential difficulties of successfully investing large volumes of assets in a single asset class, particularly active strategies for listed assets, should also be taken into account. However, while individual managers may restrict the value of assets they are prepared to accept or are able to invest, the selection of a few managers for each asset class would help to mitigate this risk.

3.11 Having reflected on the views expressed in response to the consultation and the experience of pension funds internationally, the Government believes that in almost all cases, fewer, larger assets pools will create the conditions for lower costs and reduce the likelihood of activity being duplicated across the Scheme, for example by minimising pooled vehicle set-up and running costs. It therefore expects authorities to collaborate and invest through no more than six large asset pools, each with at least £25bn of Local Government Pension Scheme assets under management once fully operational.

3.12 However, the Government recognises that there may be a limited number of bespoke circumstances where an alternative arrangement may be more appropriate for a particular asset class or specific investment. As set out below, this may include pooling to invest in illiquid assets like infrastructure, direct holdings in property and locally targeted investments.

Investment in infrastructure and other illiquid or alternative assets

3.13 The Hymans Robertson report highlighted illiquid or alternative assets as an area for significant savings for the Scheme. They found that in 2012-2013, illiquid asset classes like private equity, hedge funds and infrastructure represented just 10% of investments made, but 40% of investment fees. They also demonstrated that changing the way these investments are made, moving away from "fund of funds" to a collective investment vehicle, could save £240m a year.[6]

3.14 The Government expects the pooling of assets to remove some of the obstacles to investing in these asset classes in a cost effective way. A separate criterion has been included on infrastructure, although similar benefits exist for other alternative or illiquid assets, such as private equity, venture capital, debt funds and new forms of alternative business finance. In light of this, authorities should consider how best to access these asset classes in a more cost-effective way. Regionally based pools, such as the London boroughs' collective investment vehicle, would allow authorities to make best use of existing relationships, while a single national pool for infrastructure or illiquid assets would deliver even greater scale and opportunity for efficiency.

3.15 A considerable shift in asset allocation would be needed to develop a pool of £25bn for investment in infrastructure and other illiquid or alternative assets, such as private equity or venture capital. The Government recognises that such a significant movement in

http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government_response/recommendation_response_chapter_1.htm

[6] Hymans Robertson report, p.24

asset allocation is unlikely in the near term. As such, should authorities elect to develop a single asset pool for illiquid investments or infrastructure, the Government recognises that a value of assets under management less than £25bn might be appropriate.

Investments outside of the pools

3.16 The Government's presumption is that all investments should be made through the pool, but we recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or products tailored to specific liabilities. Authorities may therefore wish to explore whether to retain a small proportion of their existing investments outside of the pool, where this can demonstrate clear value for money. Any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale.

Property

3.17 As of the 31 March 2014, authorities reported that they were investing around 2.5% of their assets in directly held property, with a further 4.1% invested through property investment vehicles.[7] However, the amount invested varies considerably between authorities, with some targeting investment of around 10% of their assets in direct holdings, for example.

3.18 A number of consultation responses stressed the importance of retaining direct ownership of property outside of any pooled arrangement, a view echoed in our discussions with interested parties over the summer. Directly held property is used by some authorities to match a particular part of an authority's liabilities, or to generate regular income. If these assets were then pooled, while the authority would receive the benefits of the pooled properties, there is a risk that this would not match the liability or cash-flow requirements that had underpinned the decision to invest in a particular property.

3.19 In light of the arguments brought forward by authorities and the fund management industry, the Government is prepared to accept that some existing property assets might be more effectively managed directly and not through a pool at present. However, pools should be used if new allocations are made to property, taking advantage of the opportunity to share the costs associated with the identification and management of suitable investments.

3.20 Where authorities invest more than the reported Scheme average of 2.5% in property directly, they should make this clear in their pooling submission.

Addressing the criterion

3.21 When developing their proposals for pooling, authorities should set out:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

[7] Scheme Advisory Board, Annual Report http://www.lgpsboard.org/index.php/investment-performance-2014

- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making

Headline criterion: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability.

3.22 A number of consultation responses stressed the importance of establishing strong governance arrangements for pools. Securing the right balance between local input and timely, effective decision making was viewed as essential, but also a significant challenge. The management and governance arrangements of each pool will inevitably be defined by the needs of those participating. However, there are some underlying principles that the Government believes should be incorporated.

Maintaining democratic accountability

3.23 The May 2014 consultation was underpinned by the principle that asset allocation should remain with the administering authorities. Consultation respondents were strongly in favour of retaining local asset allocation, noting that each fund has a unique set of participating employers, liabilities, membership and cash-flow profiles, which need to be addressed by an investment strategy tailored to those particular circumstances.

3.24 Respondents also highlighted the transparency and accountability benefits offered by local asset allocation. If councillors are responsible for setting the investment strategy, then local taxpayers, who in part fund the Scheme through employer contributions, have an opportunity to hold their decisions directly to account through local elections. As one consultation response explained:

> The accountability of Members of the employing authorities playing a part in deciding locally how the assets of the Pension Fund are allocated is important. Employer contributions are paid, in the main, by local council tax payers who in turn vote for their local councillors. Those councillors should have the autonomy to make decisions relating to the investment strategy of that Pension Fund.

3.25 The Government agrees that this democratic link is important to the effective running of the Scheme and should not be wholly removed by the pooling of investments. As set out below, determining the investment strategy and setting the strategic asset allocation should remain with individual authorities. When developing a pool, authorities should ensure that there remains a clear link through the governance structure adopted, between the pool and the pensions committee. For example, this might take the form of a shareholding in the pool for the authority, which is exercised by a member of the pension committee.

Strategic asset allocation

3.26 Establishing the right investment strategy and strategic asset allocation is crucial to optimising performance. It is increasingly accepted that strategic asset allocation is one of the main drivers of investment returns, having far greater an impact than implementation decisions such as manager selection.

3.27 The majority of respondents to the May 2014 consultation supported local asset allocation, but discussions with interested parties over the summer have highlighted a lack of consensus as to what constitutes strategic asset allocation. Definitions have ranged from selecting high level asset classes such as the proportions in bonds, equities and property; to developing a detailed strategy setting out the extent and types of investments in each of the different equity or bond markets.

3.28 Informed by these discussions with fund managers and administering authorities, the Government believes that pension committees should continue to set the balance between investment in bonds and equities, recognising their authority's specific liability and cash-flow forecasts. Beyond this, it will be for each pool to determine which aspects of asset allocation are undertaken by the pool and which by the administering authority, having considered how best to structure decision making in order to deliver value for money. Authorities will need to consider the additional benefits of centralising decision making to better exploit synergies with other participating authorities' allocations and further drive economies of scale. When setting out their asset allocation authorities should be as transparent as possible, for example making clear the underlying asset class sought when using pooled funds.

Effective and timely decision making

3.29 Authorities should draw a distinction between locally setting the strategic asset allocation and centrally determining how that strategy is implemented. The Government expects that implementation of the investment strategy will be delegated to officers or the pool, in order to make the most of the benefits of scale and react efficiently to changing market conditions. As one consultation response suggested:

> We believe that high-level decisions about Fund objectives, strategy and allocation are best made by individual Funds considering their better knowledge of their liabilities, risk and return objectives and cash flow requirements. More detailed asset allocation decisions should however be centralised to achieve better economies of scale, and to allow more specialist management.

3.30 Authorities will need to revisit and review their decision-making processes as part of their move towards pools. For example, in order to maximise savings, manager selection will need to be undertaken at the pool level. Centralising manager selection would allow the pool to rationalise the number of managers used for a particular asset class. The resulting larger mandates should then allow the pool to negotiate lower investment fees. This approach would also give local councillors more time to dedicate to the fundamental issue of setting the overarching strategy.

3.31 A number of authorities have already delegated hiring and dismissing mangers to a sub-committee comprised predominantly of officers. This has allowed these authorities to react more quickly to changes in the market, taking advantage of opportunities as they arise. Similarly, delegating implementation decisions to the pool will allow the participating authorities to benefit not only from more streamlined decision making, but also from effecting those decisions at scale.

3.32 The creation of pools will necessarily lead to a review of decision making within each authority. The Government expects to see greater consolidation where possible. However, as a minimum, we would expect to see the selection of external fund managers and the implementation of the investment strategy to be carried out at the pooled level.

Responsible investment and effective stewardship

3.33 In June 2011, the Government invited Professor John Kay to conduct a review into UK equity markets and long-term decision making. The Kay Review considered how well equity markets were achieving their core purposes: to enhance the performance of UK companies and to enable savers to benefit from the activity of these businesses through returns to direct and indirect ownership of shares in UK companies. The review identified that short-termism is a problem in UK equity markets.[8]

3.34 Professor Kay recommended that Company directors, asset managers and asset holders adopt measures to promote both stewardship and long-term decision making. In particular, he stressed that ‘asset managers can contribute more to the performance of British business (and in consequence to overall returns to their savers) through greater involvement with the companies in which they invest.’[9] He concludes that adopting such responsible investment practices will prove beneficial for investors and markets alike.

3.35 In practice, responsible investment could involve making investment decisions based on the long term, as well as playing an active role in corporate governance by exercising shareholder voting rights. Administering authorities will want to consider the findings of the Kay Review when developing their proposals, including what governance procedures and mechanisms would be needed to facilitate long term responsible investing and stewardship through a pool. The UK Stewardship Code, published by the Financial Reporting Council, also provides authorities with guidance on good practice in terms of monitoring, and engaging with, the companies in which they invest.

Enacting an environmental, social and corporate governance policy

3.36 The investment regulations currently require authorities to set out within the statement of investment principles the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. The draft regulations published alongside this document do not propose to amend this principle.

3.37 These policies should be developed in the context of the liability profile of the Scheme, and should enhance the authority’s ability to manage down any funding deficit and ensure that pensions can be paid when due. Indeed, environmental, social and

[8] *The Kay Review of UK Equity Markets and Long-Term Decision Making*, pp. 9-10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf
[9] The Kay Review, p.12

corporate governance policies provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

3.38 As the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, the law generally is clear that schemes should consider any factors financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term, dependent on the time horizon over which their liabilities arise.

3.39 The Law Commission also clarified that, although schemes should make the pursuit of a financial return their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

3.40 The Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy.

3.41 Authorities will need to determine how their individual investment policies will be reflected in the pool. They should also consider how pooling could facilitate implementation of their environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area.

Addressing the criterion

3.42 When developing their proposals for pooling, authorities will need to set out:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any ethical, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. Reduced costs and excellent value for money

Headline criterion: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

3.43 As set out in the July Budget 2015 announcement, the Government wants to see authorities bring forward proposals to reform the way their pension scheme investments are made to deliver long-term savings for local taxpayers. Authorities are invited to consider how they might best deliver value for money, minimising fees while maximising overall investment returns.

Scope for savings

3.44 Pooling investments offers an opportunity to share knowledge and reduce external investment management fees, as the fund manager is able to treat the authorities as a single client. There is already a considerable body of evidence in the public domain to support authorities in developing their proposals for investment reform and this continues to grow with new initiatives emerging from local authorities:

- **Passive management:** Hymans Robertson showed that annual fee savings of £230m could be found by moving from active to passive management of listed assets like bonds and equities, without affecting the Scheme's overall return.[10]
- Their analysis suggested that since passive management typically results in fewer shares being traded, turnover costs, which are a drag on the performance achieved through active management, might be reduced by £190m a year.[11]
- **Collective investment:** Hymans Robertson also demonstrated that £240m a year could be saved by using a collective investment vehicle instead of "fund of funds" for illiquid assets like infrastructure, hedge funds and private equity.[12]
- Similarly, the London Pension Fund Authority has estimated that they have reduced their external manager fees by 75% by bringing equity investments in-house, and hope to expand this considerably as part of their collective investment vehicle with Lancashire County Pension Fund.[13]

[10] Hymans Robertson report, p. 12
[11] Hymans Robertson report, pp. 14-15
[12] Hymans Robertson report, p. 3
[13] Chris Rule, LPFA Chief Investment Officer, reported in *Pension Expert* on 1 October 2015

- **Sharing services and procurement costs:** The National Procurement Framework has also helped authorities to address some of the other costs associated with investment, such as legal and custodian fees, reporting measurable savings of £16m so far.[14]

3.45 As Hymans Robertson's analysis shows, just tackling the use of "fund of funds" for illiquid assets like infrastructure could save around £240m a year, with clear opportunities to go further. It is in this context that the Government is encouraging authorities to bring forward their proposals for collaboration and cost savings. Although a particular savings target has not been set, the Government does expect authorities to be ambitious in their pursuit of economies of scale and value for money.

In-house management

3.46 Some authorities manage all or the majority of their assets internally and so can already show very low management costs. In these cases, a move to a collective investment vehicle with external fund managers is unlikely to deliver cost savings from investment fees alone. However, there are wider benefits of collaboration which authorities with in-house teams should consider when developing their proposals for pooling. A pool of internally managed assets could lead to further reductions in costs, for example by sharing staff, research and due diligence checks; it may improve access to staff with stronger expertise in particular asset classes; and could introduce greater resilience in staff recruitment, retention and succession planning. Alternatively, newly created pools might wish to work with existing in-house teams to build up expertise and take advantage of their lower running costs.

Active and passive management

3.47 The May 2014 consultation considered the use of active and passive management by the Local Government Pension Scheme. Active management attempts to select fund managers who actively choose a portfolio of assets in order to deliver a return against a specific investment target. In practice, this is often used to try and outperform a benchmark, for that class of assets over a specific period. In contrast, passive management tracks a market and aims to deliver a return in line with that market.

3.48 The consultation demonstrated that when considered in aggregate, the Scheme had been achieving a market return over the last ten years in each of the main equity markets. This suggested that collectively the Scheme could have delivered savings by using less costly passive management for listed assets like bonds and equities, without affecting overall performance. While the majority of consultation responses agreed that there was a role for passive management in a balanced portfolio, most also argued that authorities should retain the use of active management where they felt it would deliver higher net returns.

3.49 In response to that consultation, the Government has now invited authorities to bring forward proposals for pooling investments to deliver economies of scale. The extent to which passive management is used will remain a decision for each authority or pool,

[14] National LGPS Frameworks website, http://www.nationallgpsframeworks.org/national-lgps-frameworks-win-lgc-investment-award

based on their investment strategy, ongoing performance and ability to negotiate lower fees with fund managers. However, in light of the evidence set out in the Hymans Robertson report and the May 2014 consultation, authorities are encouraged to keep their balance of active and passive management under review to ensure they are delivering value for money. For example, should their net returns compare poorly against the index in a particular asset class over the longer term, authorities should consider whether they are still securing value for money for taxpayers and Scheme members.

3.50 When determining how to measure performance, authorities are encouraged to consider setting targets for active managers that are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

Improving the transparency of costs

3.51 In addition to the fees paid to asset managers, there are considerable hidden costs of investment that are difficult to identify and so often go unreported by investors. In the case of the Local Government Pension Scheme, Hymans Robertson showed that investment costs in 2012-13 were at least £790m a year, in contrast to the £409m reported by the authorities.[15] Even the £790m understated the total investment costs as it excluded performance fees on alternative assets such as private equity and hedge funds (it included performance fees on traditional assets) and turnover costs (investment performance figures include the impact of turnover costs).

3.52 To really drive savings within the Scheme, it is essential that these hidden costs are better understood and reported as transparently as possible. Although many of these costs are not paid out in cash, they do erode the value of the assets available for investment and so should also be scrutinised and the opportunities for savings explored.

3.53 The Chartered Institute of Public Finance and Accountancy (CIPFA) has already made some changes to their guidance, Accounting for Local Government Pension Scheme management costs 2014, to encourage authorities to explore these costs and report some through a note to the accounts. For example, these include performance fees and management fees on pools deducted at source. Authorities should have regard to this guidance and ensure that they are reporting costs as transparently as possible.

3.54 In addition, the Scheme Advisory Board is commissioning advice to help authorities more accurately assess their transparent and hidden investment costs. Once available, authorities should take full advantage of this analysis when developing their proposals.

Addressing the criterion

3.55 As set out above, there is a clear opportunity for authorities to collaborate to deliver hundreds of millions in savings in the medium term. Although there is no overall savings target for the Scheme, the Government expects authorities to take full advantage of the benefits of pooling to reduce costs while maintaining performance.

[15] Hymans Robertson report, pp.10-11

3.56 To support the delivery of savings authorities bringing forward proposals are asked to set out their current investment costs in detail, and demonstrate how these will be reduced over time and the savings forecast. Where possible, costs should be reported back to 2012-2013 so that any cost reductions already achieved as a result of procurement frameworks and early fee negotiations are transparently captured.

3.57 Authorities are encouraged to provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity and capability to invest in infrastructure

Headline criterion: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

3.58 Investment in infrastructure is increasingly being seen as a suitable option for pension funds, particularly amongst larger organisations. This may in part be the result of the typically long term nature of these investments, which may offer a useful match to the long term liabilities held by pension funds.

International experience

3.59 Multiple large international pension funds are investing a significant proportion of their assets in infrastructure. A recent OECD report, which analysed a sample of global pension funds as at 2012, showed that some Canadian and Australian funds (with total assets of approximately £35-40bn in 2014 terms) were investing up to 10-15% in this asset class.[16] The report also noted that those funds with the largest infrastructure allocations were investing directly, and that such investment was the result of the build up of sector-specific knowledge, expertise and resources.[17] This experience might be demonstrated through an organisation's ability to manage large projects, as well as the associated risk.

3.60 Figures published by the Scheme Advisory Board for the 2013 Annual Report show that around £550m, or 0.3%, of the Scheme's total assets of £180bn was invested in infrastructure.[18] This falls some way behind other large pension funds that have elected to invest in this area, such as those noted above and the Ontario Teachers Pension Plan which invested 6.1% according to the same 2014 report.

Creating the opportunity

3.61 The Scheme's current structure, where assets are locked into 90 separate funds, reduces scale and makes significant direct infrastructure investment more difficult for administering authorities. As a result, authorities may determine that they are unable to invest in infrastructure, or may invest indirectly, through the "fund of funds" structure. Such arrangements are expensive, as the Hymans Robertson report demonstrated and this paper sets out in paragraph 3.13.

3.62 Developing larger investment pools of at least £25bn will make it easier to develop or acquire improved capacity and capability to invest in infrastructure. In so doing, it should be possible to reduce the costs associated with investment in this area. This is likely to be the case particularly if authorities pool their infrastructure investment nationally, where the

[16] OECD, *Annual Survey of Large Pension Funds: report on pension funds' long-term investments*, p.32, available at: http://www.oecd.org/daf/fin/private-pensions/LargestPensionFunds2012Survey.pdf
[17] OECD report, p.14
[18] Scheme Advisory Board annual report http://www.lgpsboard.org/index.php/scheme-investments

resultant scale may allow them to buy-in or build-up in-house expertise in relevant areas, such as project and risk management.

3.63 In considering such investment, administering authorities might want to reflect on the wide range of assets that might be explored, such as railway, road or other transport facilities; utilities services like water and gas infrastructure; health, educational, court or prison facilities, and housing supply. Authorities should also examine the benefits of both:

- Greenfield infrastructure – projects involving the construction of brand new infrastructure, such as a new road or motorway junction to unlock a housing development, or the recent investment of £25m by the Greater Manchester Pension Fund to unlock new sites and build 240 houses; and
- Brownfield infrastructure – investing in pre-existing infrastructure projects, such as taking over the running of (or the construction of a new terminal building at) an airport.

3.64 As set out above, investment in infrastructure represents a viable investment for pension funds, offering long term returns to match their liabilities. Authorities will need to make their investments based on an assessment of risk, return and fit with investment strategy. However, the creation of large pools will make greater investment in infrastructure a more realistic prospect, opening up new opportunities to develop or buy-in the capacity and capability required.

3.65 In developing their proposals for pooling, authorities should take the opportunity to review their asset allocation decisions and consider how they can be more ambitious in their infrastructure investment. The Government believes that authorities can play a leading role in UK infrastructure and driving local growth, and encourages authorities to compare themselves against the example set by the leading global pension fund investors in their approach to allocating assets in this area.

Addressing the criterion

3.66 Authorities should identify their current allocation to infrastructure, and consider how the creation of up to six pools might facilitate greater investment in this area. When developing proposals, authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through fund, or “fund of funds”.
- How they might develop or acquire the capability and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or “fund of funds” arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Department for
Communities and
Local Government

Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Consultation

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About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact DCLG Consultation Co-ordinator.

Department for Communities and Local Government

2 Marsham Street

London

SW1P 4DF

or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	This consultation proposes to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 with the draft regulations described in this paper. There are two main areas of reform: 1. A package of reforms that propose to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. 2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.
Scope of this consultation:	Views are sought on: 1. Whether the proposed revisions to the investment regulations will give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk. 2. Whether the proposals to introduce the power of intervention as a safeguard will enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme (the Scheme) and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions Division.
Duration:	25 November 2015 to 19 February 2016
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **19 February 2016**. Electronic responses are preferred. However, you can also write to: LGPS Reform Department for Communities and Local Government 2/SE Quarter, Fry Building 2 Marsham Street London SW1P 4DF
Additional ways to become involved:	If you would like to discuss the proposals, please email LGPSReform@communities.gsi.gov.uk
After the consultation:	All consultation responses will be reviewed and analysed. A Government response will then be published within three months, and subject to the outcome of this consultation, the resulting regulations laid in Parliament.
Compatibility with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	The proposals in this consultation are the culmination of work looking into Local Government Pension Scheme investments that began in early 2013. It has been developed in response to the May 2014 consultation, *Opportunities for collaboration, cost savings and efficiencies,* which considered whether savings might be delivered through collective investment and greater use of passive fund management. A copy of the consultation and the Government's response is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies. The consultation responses called for a voluntary approach to reform, opposing the introduction of a single, national model of pooling. The Government has therefore invited authorities to develop their own proposals for pooling, subject to common criteria and guidance. The criteria for reform have been developed using the consultation responses and following a series of workshops and conversations with authorities and the fund management industry since the July Budget 2015. Some respondents to the May 2014 consultation also suggested that amendments were required to the investment regulations in order to facilitate greater investment in pooled vehicles. In addition, prior to that consultation, authorities and the fund management industry had called for wider reform. A small working group, whose participants are listed in Annex A, was established to look at whether the approach to risk management and diversification in the existing regulations was still appropriate. They recommended moving towards the "prudential person" approach that governs trust based pension schemes. The group also sought clarity as to whether certain types of investment were possible, such as the use of derivatives in risk management. The work of that group has informed the development of this consultation. In relaxing the regulatory framework for scheme investments, it is important to introduce safeguards to ensure that the less prescriptive approach is used appropriately. The July Budget 2015 announcement also indicated that measures should be introduced to ensure that those authorities who do not bring forward ambitious proposals for pooling, in keeping with the criteria, should be required to pool. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

Previous engagement:	The proposed changes in this consultation are the result of a programme of engagement that began in summer 2013: • Round table event, 16 May 2013. Representatives of administering authorities, employers, trade unions, the actuarial profession and academia discussed the potential for increased cooperation within the Scheme. • A call for evidence, run with the Local Government Association, June to September 2013. This gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The results were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their analysis of the responses. • Consultation, *Opportunities for collaboration, cost savings and efficiencies,* May to June 2014. The consultation set out how savings of £470-660m a year could be achieved by collective investment and greater use of passive fund management. It also sought views as to how these reforms might best be implemented. The Government's response is available online: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies. • Informal engagement, July to November, 2015. Since the July Budget 2015 announcement, officials have attended over 25 workshops and bi-lateral meetings with administering authorities and the fund management industry. These discussions have been used to develop the criteria for reform and inform how the proposed power of the Secretary of State to intervene might work. In addition, the Investment Regulation Review Group was formed in 2012 to consider potential amendments to the investment regulations. The group included representatives from administering authorities, actuarial firms, pension lawyers and the fund management industry. An initial proposal for reform was prepared that has also informed the development of the draft regulations that are the subject of this consultation.

Introduction and Background

Introduction

1.1 In May 2014 the Government published a consultation which set out how savings of up to £660m a year might be achieved through greater use of passive management and pooled investment. Investing collectively can help authorities to drive down costs and access the benefits of scale, and also enables them to develop the capacity and capability to invest more cost effectively in illiquid asset classes such as infrastructure. The Government has therefore invited authorities to develop ambitious proposals for pooling assets that meet published criteria. More information about the criteria and process of reform is available on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance.

1.2 This consultation complements that invitation, recognising that the existing regulations place restrictions on certain investments that may constrain authorities considering how best to pool their assets. It therefore proposes to move to a prudential approach to securing a diversified investment strategy that appropriately takes account of risk. In so doing, and to ensure that authorities take advantage of the benefits of scale, the Government proposes to introduce a power to allow the Secretary of State to intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

1.3 This paper sets out the purpose and rationale of the suggested amendments to the investment regulations, and seeks views as to whether the proposed approach would best deliver those stated aims.

Background

1.4 With assets of £178bn at its last valuation on 31 March 2013, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

1.5 The Scheme is managed through 90 administering authorities which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London boroughs. In most cases, the administering authorities are upper tier local authorities such as county or unitary councils, but there are also some authorities established specifically to manage their pension liabilities, for example the London Pension Fund Authority and the Environment Agency Pension Fund. The

[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

administering authorities have individual governance and working arrangements. Each has its own funding level, cash-flow and balance of active, deferred and pensioner members. Authorities take these circumstances into account when preparing their investment strategies, which are normally agreed by the councillors on each authority's pension committee. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 set the legal framework for the development of these investment strategies and the investments carried out by administering authorities. This consultation proposes that the Government revokes and replaces those regulations.

1.6 Under the Public Service Pensions Act 2013, there is a requirement for a national scheme advisory board, as well as a local board for each of the 90 funds. In 2013, Scheme employers and the trade unions established a shadow board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. Appointments have now been made to the national scheme advisory board and the Chair is expected to be appointed shortly.

Getting to this stage

2.1 The consultation is formed of two main proposals:

1. A package of reforms that propose to remove some the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. The changes proposed would move towards the “prudent person” approach to investment that applies to trust based pension schemes.
2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately, and that the guidance on pooling assets is adhered to, including a power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.

Pooling assets to deliver the benefits of scale

2.2 The proposals set out in this consultation are the culmination of work carried out over the last two and a half years to explore how to reform the way the Scheme makes its investments in order to achieve the benefits of scale and drive efficiencies.

2.3 In summer 2013, the coalition government launched a call for evidence to explore how the Scheme might be made more sustainable and affordable in the long term. 133 responses were received, many of which took the opportunity to discuss whether collective investment and greater collaboration might deliver savings for the Scheme.

2.4 Following the call for evidence, the Minister for the Cabinet Office and Minister for Local Government commissioned a cost-benefits analysis from Hymans Robertson on a range of proposals. Hymans Robertson’s report explored three areas:

- **The cost of investment:** Many of the costs associated with investment are not transparent and so difficult to capture. The costs of managing and administering the Scheme were reported as being £536 million in 2012-13.[2] However, Hymans Robertson found that the actual cost was likely to be rather higher; with investment costs alone estimated as in excess of £790 million a year.[3]
- **Approaches to collaboration:** Hymans Robertson was asked to examine the costs and benefits of three options for reform: merging the authorities into 5-10 funds, creating 5-10 collective investment vehicles, or establishing just 1-2 collective investment vehicles. They found that the net present value of savings over ten years was highest with a small number of vehicles, while merging funds offered the lowest benefit.[4]

[2] Local government pension scheme funds summary data: 2012 to 2013
[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson pp. 10-11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies
[4] Hymans Robertson, p.6

- **The aggregate performance of the scheme:** The report found that the Scheme as a whole had been achieving the market rate of return in each of the main equity markets over the ten years to March 2013. If the Scheme's investments in bonds and equities had been managed passively instead of actively, authorities could have saved at least £230m a year in management fees without affecting overall investment returns.[5]

2.5 Drawing on the Hymans Robertson report and the call for evidence, the coalition government published a consultation in May 2014 entitled *Opportunities for collaboration, cost savings and efficiencies*. This set out how the Scheme could save up to £660m a year by using collective investment vehicles and making greater use of passive management for listed assets like bonds and equities. The consultation sought views on these proposals, and how they might be most effectively implemented. Respondents were broadly in favour of pooling assets, but felt that any reform should be voluntary and led by administering authorities. While many recognised a role for passive management in an investment strategy, most also felt that some active management should be retained.

2.6 At the July Budget 2015, Ministers having reflected on the consultation responses, the Chancellor announced the Government's intention to invite administering authorities to bring forward proposals for pooling local government pension scheme investments. Authorities' proposals would be assessed against published criteria, designed to encourage ambition in the pursuit of efficiencies and the benefits of scale. These criteria have now been published and are available online at https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance.

Updating the investment regulations

2.7 When considering the implications of creating asset pools amongst authorities, some respondents to the May 2014 consultation took the opportunity to call for a review of the existing investment regulations. At their introduction in 2009, the regulations sought to ensure that authorities established a balanced and diversified portfolio by placing restrictions on the proportion of their assets that could be invested in different vehicles. For example, deposits with a single bank, institution or person, (other than the National Savings Bank), were restricted to 10% of an authority's assets. These restrictions have been kept under regular review and have been subject to change following representations from the investment sector and pension fund authorities.

2.8 Some respondents to the consultation suggested that the current limits on investments would prevent authorities from making meaningful allocations to a collective investment vehicle, one of the leading options for asset pooling, as the allocation to particular types of vehicle is capped at 35%. Participants in the London Boroughs' collective investment vehicle and the collaboration between the London Pension Fund Authority and Lancashire County Council also wrote to the Department encouraging reform in this area.

[5] Hymans Robertson, p.12

2.9 While the proposals for collective investment in the May 2014 consultation prompted encouragement to review the investment regulations, the idea of reform was not new. In 2012, following representations from the investment sector, the Government formed a small working group to revisit and examine the investment regulations with input from actuaries, fund managers and administering authorities. This group, whose membership is set out in Annex A, recommended that a more permissive approach should be taken to the legislative framework, similar to the "prudent person" model that applies to trust based pension schemes. This approach places the onus on the pension fund to determine a suitable balance of investments to meet its liabilities, which are clearly articulated in an investment strategy. The group also felt that the existing regulations introduced uncertainty for some authorities as to what constituted a permitted investment, as some asset classes were explicitly referenced but others were not. In particular, concern has been expressed as to whether or not pension fund authorities are permitted to invest in vehicles such as derivatives, hedge funds and forward currency contracts.

2.10 The proposals in this consultation paper therefore seek to address these issues, placing the onus on authorities to determine a diversified investment strategy that appropriately takes risk into account.

2.11 However, in relaxing the regulatory framework for scheme investments, it is also important to introduce safeguards to ensure that the less prescriptive approach proposed is used appropriately. Similarly, the July Budget 2015 announcement stated that draft regulations would be introduced to require an authority to pool its investments if it did not bring forward ambitious proposals that met the Government's criteria. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

Response to the Law Commission's Review of Fiduciary Duty

2.12 The Kay Review on Fiduciary Duty published its final report in July 2012. In addition to making a number of recommendations to address the excessive focus on short-term performance in equity investment markets, it recommended that the Government ask the Law Commission to review the fiduciary duties of investment intermediaries amid concerns that these common law duties were being interpreted by some pension schemes as a requirement to focus solely on short-term financial returns.

2.13 In their report, published in July 2014, the Law Commission called on the Department to review:

- Whether the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 should transpose article 18(1) of the Institutions for Occupational Retirement Provision (IORP) Directive, and
- Those aspects of Regulation 9 of the 2009 Regulations which require investment managers to be appointed on a short-term basis and reviewed every three months.

2.14 These recommendations were supported by the Government's progress report on the implementation of the Kay Review published in October 2014 by the Department for Business Innovation and Skills.

2.15 Article 18(1) of the IORP Directive requires assets to be invested in the best interests of members and beneficiaries and, in the event of a conflict of interest, in the sole interests of members and beneficiaries.

2.16 Regulation 4 of The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005 No 3378) transposed Article 18(1):

"4. (1) The trustees of a trust scheme must exercise their powers of investment, and any fund manager to whom any discretion has been delegated under section 34 of the 1995 Act (power of investment and delegation) must exercise the discretion, in accordance with the following provisions of this regulation

(2) The assets must be invested:

- (a) In the best interests of members and beneficiaries; and
- (b) In the case of a potential conflict of interest, in the sole interest of members and beneficiaries."

2.17 The Local Government Pension Scheme is a statutory scheme made under section 1 of the Public Service Pensions Act 2013 and previously under The Superannuation Act 1972. It is not subject to trust law and those responsible for making investment decisions in the Scheme are not therefore required to comply with Regulation 4 of the 2005 Regulations.

2.18 However, this does nothing to change the general legal principles governing the administration of Scheme investments and how those responsible for such decisions should exercise their duties and powers under the Scheme's investment regulations.

2.19 In a circular issued by the then Department of the Environment in 1983 (No 24), the Secretary of State took the view that administering authorities should pay due regard to the principle contained in the case of Roberts v Hopwood [1925] A.C. 578 p. 595:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of the property of others."

2.20 Those in local government responsible for making investment decisions must also act in accordance with ordinary public law principles, in particular, the ordinary public law principles of reasonableness. They risk challenge if a decision they make is so unreasonable that no reasonable person acting reasonably could have made it.

2.21 Having considered fully the recommendation made by the Kay Review and supported by both the Law Commission and the Government, Ministers are satisfied that the Scheme is consistent with the national legislative framework governing the duties placed on those responsible for making investment decisions. The position at common law is also indistinguishable from that produced by the 2005 Regulations applicable in respect of trust-based schemes.

2.22 We do, however, propose to remove the requirement for the performance of investment managers to be reviewed once every three months from the regulations.

Proposal 1: Adopting a local approach to investment

Deregulating and adopting a local approach to investment

3.1 In developing these draft regulations, the Government has sought, where appropriate, to deregulate and simplify the regulations that have governed the management and investment of funds since 2009. Some of the existing provisions have not been carried forward into the draft 2016 Regulations in the expectation that they would be effectively maintained by general law provisions and so specific regulation is no longer needed. For example, those making investment decisions are still required to act prudently, and there remains a statutory requirement to take and act on proper advice. Some of the provisions in the 2009 Regulations which have not been carried forward on this basis include:

- Stock lending arrangements under Regulation 3(8) and (9) of the 2009 regulations. The view is taken that the definition of “investment” in draft Regulation 3 is sufficient given that a stock lending arrangement can only be used if it falls within the ordinary meaning of an “investment”.
- Regulation 8(5) of the 2009 regulations ensures that funds are managed by an adequate number of investment managers and that, where there is more than one investment manager, the value of the fund money managed by them is not disproportionate. Here, the view is taken that administering authorities should be responsible for managing their own affairs and making decisions of this kind based on prudent and proper advice.
- There are many provisions in the 2009 Regulations which impose conditions on the choice and terms of appointments of investment managers. Since the activities of investment managers are governed by the contracts under which they are appointed, the view is taken that making similar provision in the 2016 Regulations would be unnecessary duplication. Examples include the requirement for investment managers to comply with an administering authority’s instructions and the power to terminate the appointment by not more than one month’s notice.
- Regulation 12(3) of the 2009 Regulations requires administering authorities to state the extent to which they comply with guidance given by the Secretary of State on the Myners principles for investment decision making. As part of the wider deregulation, the draft regulations make no provision to report against these principles, although authorities should still have regard to the guidance.

3.2 These examples of deregulation are for illustrative purposes only. It is not an exhaustive list of provisions which the Government proposes to remove. Consultees are asked to look carefully at the full extent of deregulation and comment on any particular case that raises concerns about the impact such an omission might have on the effective management and investment of funds.

Investment strategy statement

3.3 As part of this deregulation, the draft regulations also propose to remove the existing schedule of limitations on investments. Instead authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.

3.4 Key to this will be the investment strategy statement, which authorities will be required to prepare, having taken proper advice, and publish. The statement must cover:

- A requirement to use a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including how it will be measured and managed.
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services.
- The authority's environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

Transitional arrangements

3.5 Draft regulation seven proposes to require authorities to publish an investment strategy statement no later than six months after the regulations come into force (this is currently drafted as 1 October 2016, in case the draft regulations come into effect on 1 April 2016). However, the draft regulations would also revoke the existing 2009 Regulations when they come into effect. Transitional arrangements are therefore required to ensure that an authority's investments and investment strategy are regulated between the draft regulations coming into effect and the publication of an authority's new investment strategy statement. The transitional arrangements proposed in draft regulation 12 would mean that the following regulations in the 2009 Regulations would remain in place until the authority publishes an investment strategy or six months lapses from the date that the regulations come into effect:

- 11 (investment policy and investment of pension fund money)
- 14 (restrictions on investments)
- 15 (requirements for increased limits)
- Schedule 1 (table of limits on investments)

Statement of Investment Principles

3.6 We do not propose to carry forward the existing requirement under regulation 12 of the 2009 Regulations to maintain a Statement of Investment Principles. However, the main elements, such as risk, diversification, corporate governance and suitability, will instead be carried forward as part of the reporting requirements of the new investment strategy statement. Administering authorities will still be required to maintain their funding strategy statements under Regulation 58 of the 2013 regulations.

Non-financial factors

3.7 The Secretary of State has made clear that using pensions and procurement policies to pursue boycotts, divestments and sanctions against foreign nations and the UK defence industry are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. The Secretary of State has said, “Divisive policies undermine good community relations, and harm the economic security of families by pushing up council tax. We need to challenge and prevent the politics of division.”

3.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 already require administering authorities to publish and follow a statement of investment principles, which must comply with guidance issued by the Secretary of State. The draft replacement Regulations include provision for administering authorities to publish their policies on the extent to which environmental, social and corporate governance matters are taken into account in the selection, retention and realisation of investments. Guidance on how these policies should reflect foreign policy and related issues will be published ahead of the new Regulations coming into force. This will make clear to authorities that in formulating these policies their predominant concern should be the pursuit of a financial return on their investments, including over the longer term, and that, reflecting the position set out in the paragraph above, they should not pursue policies which run contrary to UK foreign policy.

Investment

3.9 A few definitions and some aspects of regulation 3, which describes what constitutes an investment for the purpose of these regulations, have been updated to take account of changing terminology and technical changes since the regulations were last issued in 2009. For example, the reference to the London International Financial Futures Exchange (LIFFE) has been removed as it now operates as a clearing house and so is covered by the approved stock exchange definition.

3.10 Some additional information has been included to make clear that certain investments, such as derivatives, may be used where appropriate. The Government expects that having considered the appropriateness of an investment in their investment strategy statement, authorities would only use derivatives as a means of managing risk, and so has not explicitly stated that this should be the case.

Questions

1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities’ investments are made prudently and having taken advice?

2. Are there any specific issues that should be reinstated? Please explain why.

3. Is six months the appropriate period for the transitional arrangements to remain in place?

4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

Proposal 2: Introducing a safeguard - Secretary of State power of intervention

Summary of the proposal

4.1 The first part of this consultation lifts some of the existing restrictions on administering authorities' investments in order to make it easier for them to pool their investments and access the benefits of scale. To ensure that this new flexibility is used appropriately, the consultation also proposes to introduce a power to intervene in the investment function of an administering authority if the Secretary of State believes that it has not had regard to guidance and regulations. The consultation sets out the evidence that the Secretary of State may draw on before deciding to intervene, and makes clear that any direction will need to be proportionate. The power proposed in this consultation is intended to allow the Secretary of State to act if best practice or regulation is being ignored, which will help to ensure that authorities continue to pursue more efficient means of investment.

4.2 The July Budget 2015 announcement set out the Government's intention to introduce "backstop" legislation to require those authorities who do not bring forward sufficiently ambitious plans to pool their investments. It also explained that authorities' proposals would need to meet common criteria, which have been published with draft guidance alongside this consultation. The draft power to intervene discussed in this paper could be used to address authorities that do not bring forward proposals for pooling their assets in line with the published criteria and guidance. The guidance will be kept under review, and will be revised as circumstances change and authorities' asset pools evolve.

4.3 The following sections set out the process for intervention described in draft regulation 8.

Determining to intervene

4.4 The draft regulations propose to give the Secretary of State the power to intervene in the investment function an administering authority, if the Secretary of State has determined that the administering authority has failed to have regard to the regulations governing their investments or guidance issued under draft regulation 7(1). In reaching that conclusion, the Secretary of State will consider the available evidence, which might include:

- Evidence that an administering authority is ignoring information on best practice, for example, by not responding to advice provided by the scheme advisory board to local pension boards.
- Evidence that an administering authority is not following the investment regulations or has not had regard to guidance published by the Secretary of State under draft Regulation 7 (1). For example, this might include failing to participate in one of the large asset pools described in the existing draft guidance, or proposing a pooling arrangement that does not adhere to the criteria and guidance.

- Evidence that an administering authority is carrying out another pension-related function poorly, such as an unsatisfactory report under section 13(4) of the Public Service Pensions Act 2013, or another periodic reporting mechanism. (Section 13(4) of the 2013 Act requires a person appointed by the Secretary of State to report on whether the actuarial valuation of a fund has been carried out in accordance with Scheme regulations, in a way that is consistent with other authorities' valuations, and so that employer contribution rates are set to ensure the solvency and long term cost efficiency of the fund.)

4.5 If the Secretary of State has some indication to suggest that intervention might be necessary, the draft regulations propose that he may order a further investigation to provide him with the analysis required to make a decision. If additional evidence is sought, draft regulation 8(5) would allow the Secretary of State to carry out such inquiries as he considers appropriate, including seeking advice from external experts if needed. In this circumstance, the administering authority would be obliged to provide any data that was deemed necessary to determine whether intervention is required. The authority would also be invited to participate in the review and would have the opportunity to present evidence in support of its existing or proposed investment strategy.

The process of intervention

4.6 If the Secretary of State is satisfied that an intervention is required, he would then need to determine the appropriate extent of intervention in the authority's investment function. The draft regulations propose to allow the Secretary of State to draw on external advice to determine what the specific intervention should be if necessary.

4.7 Draft regulation 8(2) describes the interventions that the Secretary of State may make. The power has been left intentionally broad to ensure that a tailored and measured course of action is applied, based on the circumstances of each case. For example, in some cases it may be appropriate to apply the intervention just to certain parts of an investment strategy, whereas in particularly concerning cases, more substantial action might be required. The proposed intervention might include, but is not limited to:

- Requiring an administering authority to develop a new investment strategy statement that follows guidance published under draft Regulation 7(1).
- Directing an administering authority to invest all or a portion of its assets in a particular way that more closely adheres to the criteria and guidance, for instance through a pooled vehicle.
- Requiring that the investment functions of the administering authority are exercised by the Secretary of State or his nominee.
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body.

4.8 The Secretary of State will write to the authority outlining the proposed intervention. As a minimum, this proposal will include:

- A detailed explanation of why the Secretary of State is intervening and the evidence used to arrive at their determination.

- A clear description of the proposed intervention and how it will be implemented and monitored.
- The timetable for the intervention, including the period of time until the intervention is formally reviewed.
- The circumstances under which the intervention might be lifted prior to review.

4.9 The authority will then be given time to consider the proposal and present its argument for any changes that it thinks should be made. If, at the end of that period an intervention is issued, any resulting costs, charges and expenses incurred in administering the fund would be met by the pension fund assets.

Review

4.10 As set out above, each intervention will be subject to a formal review period which will be set by the Secretary of State but may coincide with other cyclical events such as the preparation of an annual report or a triennial valuation. At the end of that period, progress will be assessed and the Secretary of State will decide whether to end, modify or maintain the current terms of the intervention, and will notify the authority of the outcome. The authority will also have the opportunity to make representations to the Secretary of State if it feels a different course of action should be followed. Throughout this period of intervention, the authority will be supported to improve its investment function, so that it is well placed to bring the intervention to an end at the first opportunity.

4.11 The Secretary of State’s direction will include details about what is required of the authority in order to end the intervention, and how progress will be measured. Progress could, for example, be measured by creating a set of performance indicators to be monitored on an ongoing basis by Government officials, the local pension board, the scheme advisory board, or an independent body. A regime of regular formal reports to the Secretary of State could also be required.

4.12 The draft regulations also allow the Secretary of State to determine that sufficient improvement has been made to end the intervention before the review date. The administering authority may also make representations to the Secretary of State before that date, if it has clear evidence that the prescribed action is no longer appropriate.

Questions

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

Summary of the draft regulations

(1) Citation, commencement and extent

This details the citation and scope of the draft regulations, and gives the date at which they will come into force.

(2) Interpretation

These provisions define terms used in the draft regulations with reference to legislation, and cite the legislation that gives administering authorities the powers that may be impacted by the draft regulations.

(3) Investment

This draft regulation defines what is considered an investment for the purposes of the regulations. This definition includes futures, options, derivatives, limited partnerships and some types of insurance contracts. It also defines who a person with whom a contract of insurance can be entered into is.

(4) Management of a pension fund

This draft regulation lists the monies that an administering authority must credit to its pension fund, including employer and employee contributions, interest, and investment capital and income. It also sets out the administering authority's responsibility to pay benefits entitled to members, and states that, except where prohibited by other regulations, costs of administering the fund can be paid by the fund.

(5) Restriction on power to borrow

This proposed regulation outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.

(6) Separate bank account

The draft regulation states that an administering authority must deposit all pension fund monies in a separate account, and lists those institutions that can act as a deposit taker. It also states that the deposit taker cannot use pension fund account to set-off any other account held by the administering authority or a connected party.

(7) Investment strategy statement

This draft regulation places an obligation on the administering authority to consult on and publish an investment strategy statement, which must be in accordance with guidance from the Secretary of State. The statement should demonstrate that investments will be suitably diversified, and it should outline the administering authority's maximum allocations for different asset classes, as well as their approach to risk and responsible investing.

In many respects, the investment strategy statement replaces the list of restrictions given in Schedule 1 of the 2009 Regulations and enables the criteria to be determined at local level. Schedule 1 of the 2009 Regulations will remain in force until such time that the new investment strategy statements have to be published.

Provision is made for authorities to publish their policy on the extent to which environmental, social and corporate governance factors are taken into account in the selection, retention and realisation of investments.

Separate guidance will be issued by the Secretary of State that will clarify how the Government's recent announcement on boycotts, sanctions and disinvestment will be exercised.

(8) Directions by the Secretary of State

This provision would grant the Secretary of State the power to intervene in the investment function of an administering authority if he is satisfied that the authority is failing to have regard to regulation and guidance. He can also initiate inquiries to determine if an intervention is warranted, and must consult with the authority concerned. Once it is determined that an intervention is needed, the Secretary of State can intervene by directing the authority undertake a broad range of actoins to remedy the situation.

(9) Investment managers

This draft regulation details how an administering authority must appoint external investment managers.

(10) Investments under section 11(1) of the Trustee Investments Act 1961

This draft regulation allows administering authorities to invest in Treasury-approved collective investment schemes.

(11) Consequential amendments

This proposed regulation lists the prior regulations that are amended by the draft amendments.

(12) Revocations and transitional provisions

The draft provision lists the regulations that would be revoked if the draft regulations come into effect. It also proposes transitional arrangements to ensure that the existing regulations governing the investment strategy remain in place until a new investment strategy statement is published by an authority under draft regulation seven. These transitional arrangements would apply for up to six months after the draft regulations came into effect.

Annex A: Members of the Investment Regulation Review Group

Alison Hamilton	Barnet Waddingham
Bob Claxton	Wandsworth Pension Fund
Clifford Sims	Squire Patton Boggs
Dawn Turner	Environment Agency Pension Fund
Geoff Reader	Bedford Pension Fund
Graeme Russell	Greater Gwent Pension Fund
Guy Sears	Investment UK
Loretta Stowers	Greater Manchester Pension Fund
Nick Buckland	Dorset Pension Fund
Nigel Keogh	Chartered Institute of Public Finance and Accountancy
Paul Dale	Bromley Borough Council
Peter Morris	Greater Manchester Pension Fund

Suffolk County Council

Agenda Item 5

Suffolk Pension Board

Report Title:	Compliments and Complaints
Meeting Date:	16 December 2015
Chairman:	Councillor Richard Smith MVO
Director:	Geoff Dobson, Director of Resource Management Tel. 01473 264347
Author:	Stuart Potter, Pensions Operations Manager Tel. 01473 260295

Brief summary of report

1. This report provides the Pension Board with the number of compliments and complaints received by the Pension Administration team since the previous board meeting on 28 September 2015.

Action recommended

2. To consider the information provided and determine any further action

Reason for recommendation

3. The Pension Board requested to receive information about the number of compliments and complaints received.

Alternative options

4. There are no alternative options.

Main body of report

5. In this financial year there have been eleven compliments and eight complaints received.

6. Since the 28 September 2015 report there has been six compliments received by members of the team. These are cases where the individuals have gone out of their way to thank us for something, rather than the regular words of 'thanks' received daily as part of the day to day communications with customers.

7. During this time there have been three complaints all going through the IDRP (internal dispute resolution procedure). The IDRP is the formal complaints procedure which enables any member of the scheme or their dependents to have a decision formally reviewed if they are not satisfied with any decision affecting them made in relation to the Pension Scheme. The employees guide to the IDRP is attached as **Appendix 1** and is available on the Suffolk Pension website (www.suffolkpensionfund.org).

8. Two of the original decisions were supported at the first stage, although one of these complainants has now taken their complaint to the second stage with every indication they will take it further. This is in relation to the regulations of the scheme not allowing them to receive a refund of their contributions.

9. In the third case the original decision was not supported. A training need was identified and this is currently being resolved.

Sources of further information

a) None

Appendix 1

INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP) - EMPLOYEES' GUIDE

ENQUIRIES

If you are not sure which benefits you are entitled to, or you have a problem with your benefits, please either phone the number on the letter your employer or administering authority sent you, or contact the Pensions Section of your administering authority:

The Pensions Manager
Suffolk County Council
Constantine House
5 Constantine Road
IPSWICH
Suffolk
IP1 2DH

They will try to deal with the problem as quickly and efficiently as possible. The administering authority is the authority that looks after the pension fund. Many problems that members have are, in fact, resolved in this way. They may be caused by misunderstandings or wrong information, which can be explained or put right easily. An informal enquiry of this kind may save you a lot of time and trouble.

DECISIONS

From the day a person starts a job with an employer, to the day when benefits or dependant's benefits are paid, the employer and the Pension Scheme administering authority have to make decisions under the Pension Scheme rules that affect you (or your dependants). When you (this includes dependants) are notified of a decision you should check, as far as you can, that it is based on the correct details and that you agree with the decision.

COMPLAINTS

If you are not satisfied with any decision affecting you made in relation to the Scheme, you have the right to ask for it to be looked at again under the formal complaint procedure. You also have a right to use the procedure if a decision should have been made by your employer or administering authority, but it hasn't been. The complaint procedure's official name is the "internal dispute resolution procedure".
There are also a number of other regulatory bodies, such as TPAS, which may be able to help you. They are described in the "Additional Help" section.

The formal complaint procedure has two stages. Many complaints are resolved at the first stage. Any complaint you make should be treated seriously, and considered thoroughly and fairly.

You can ask someone to take your complaint forward on your behalf. This could be, for instance, a trade union official, welfare officer, your husband, wife or partner, or a friend.
No charge is made at any stage for investigating a complaint under the internal dispute resolution procedure. But expenses that you will have to meet are your own (and/or your representative's) time, stationery and postage.

At any stage during the formal complaint procedure you can contact the Pensions Advisory Service (TPAS) for information and advice (see "Additional Help" section). Please remember that, before going to the trouble of making a formal complaint, your Pensions Section may welcome the opportunity to try to resolve the matter about which you are dissatisfied in an informal way. It may be worth checking again that they know you are concerned, and why.

First stage

If you need to make a formal complaint, you should make it:

- in writing, using the application form included with this note, and
- normally within 6 months of the day when you were told of the decision you want to complain about.

Your complaint will be considered carefully by a person nominated by the body that took the decision against which you wish to complain. This guide calls them the "nominated person" That person is required to give you their decision in writing.

If the nominated person's decision is contrary to the decision you complained about, the employer or administering authority who made that original decision will now have to deal with your case in accordance with the nominated person's decision.

If the decision you complained about concerned the exercise of a discretion by the employer or administering authority, and the nominated person decides that the employer or administering authority should reconsider how they exercised their discretion, they will be required to reconsider their original decision.

Second Stage

You can ask the pension scheme administering authority to take a fresh look at your complaint in any of the following circumstances:

- you are not satisfied with the nominated person's first-stage decision,
- you have not received a decision or an interim letter from the nominated person, and it is 3 months since your lodged your complaint,
- it is one month after the date by which the nominated person told you (in an interim letter) that they would give you a decision, and you have still not received that decision.

This review would be undertaken by a person not involved in the first stage decision. You will need to send the appropriate administering authority your complaint in writing. The time limits for making the complaint are set out in the table on pages 7 and 8. The administering authority will consider your complaint and give you their decision in writing.

If you are still unhappy following the administering authority's second stage decision, you can take your case to the Pensions Ombudsman provided you do so within 3 years from the date of the original decision (or lack of a decision) about which you are complaining.

ADDITIONAL HELP

The Pensions Advisory Service (TPAS)

At any time if you are having difficulties in sorting out your complaint, you may wish to contact TPAS.

TPAS can provide free advice and information to explain your rights and responsibilities. To get information or guidance, you can look at the website on www.opas.org.uk or you can contact TPAS by phone, post, email or fax.

The **Pensions Helpline phone number** is 0845 6012923 (local call rate)
Lines are manned Monday to Friday 9am to 5pm.

Outside of these times, you can leave your number and someone will phone you back later.

You can write to:

TPAS
11 Belgrave Road
London
SW1V 1RB

Email: enquiries@opas.org.uk

Fax: 020 7233 8016

If you have received a second-stage decision under the Local Government Pension Scheme internal dispute resolution procedure, are not satisfied with that decision, and still think your complaint is well-founded, TPAS may be able to help to resolve your pensions complaint or dispute. Before asking for TPAS' help in resolving a dispute, you must have already tried to settle it using the LGPS internal disputes resolution procedure described above.

A TPAS adviser cannot force a pension scheme to take a particular step but, if they think your complaint is justified, they will try to resolve the problem through conciliation and mediation. TPAS would need copies of all relevant documents, including the correspondence about your complaint under the internal complaints procedure and how it was dealt with.

Pensions Ombudsman

The Ombudsman investigates complaints and settles disputes about pension schemes. However, before contacting the Ombudsman, the Pensions Ombudsman's Office would normally expect you to have:

- been given first-stage and second-stage internal dispute resolution procedure decisions by the Local Government Pension Scheme; and
- asked for the help of TPAS.

The Pensions Ombudsman is completely independent and acts as an impartial adjudicator. His role and powers have been decided by Parliament. There is no charge for using the Pensions Ombudsman's services.

The Ombudsman cannot investigate matters where legal proceedings have already started but, subject to that, he can settle disputes about matters of fact or law as they affect occupational pension schemes. He can also investigate and decide any complaint or dispute about the maladministration of a pension scheme. "Maladministration" is about the way that a decision is taken, rather than about the merits of the decision. Examples of maladministration would be unreasonable delay, neglect, giving wrong information and discrimination.

The Ombudsman's decision is final and binding on all the parties, subject to any appeal made to the High Court on a point of law.

You must refer your complaint to the Ombudsman within 3 years of the event about which you are complaining, or within 3 years of when you first became aware of the problem.

The Ombudsman is at the same address as TPAS:

The Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Other ways to contact him are:

Tel: 020 7834 9144
Fax: 020 7821 0065

Email: enquiries@pensions-ombudsman.org.uk
The website address is: http://www.pensions-ombudsman.org.uk

APPLICATION UNDER THE INTERNAL DISPUTE RESOLUTION PROCEDURE

You can use this form:

a) to apply to the nominated person at stage 1 of the internal dispute resolution procedure if you want them to investigate a complaint concerning your pension; and

b) to apply to the administering authority if you want them to reconsider a determination made by the nominated person.
Please write clearly in ink, and use capital letters in boxes 1, 2 and 3.

1. Member's details:

If you are the member (the person who is or was in the Scheme), or a prospective member (a person who is eligible to be a member of the Scheme), please give your details in this box. You can then go straight to box 4.

If you are the member's dependant (for example, their husband, wife or child), please give the member's details in this section, and then go to box 2.

If you are representing the person with the complaint, please give the member's details in this section, and then go to box 2.

Full Name	
Address	
Date of Birth	
Employer	
National insurance number	

2. Dependant's details:

If you are the member's dependant and the complaint is about a benefit for you, please give **your** details in this box and then go to box 4.
If the complaint is about a benefit for a dependant and you are the dependant's representative, please give the dependant's details in this box and then go to box 3.

Full Name	
Address	
Date of Birth	
Relationship to member	

3. Representative's details:

If you are the member's or dependant's representative, please give your details in this box.

Full Name	
Address	
The address response letters should be sent to	

4. Your complaint

Please give full details of your complaint in this box. Please try to explain exactly why you are unhappy, giving any dates or periods of Scheme membership that you think are relevant.

If there is not enough space, please go on to a separate sheet and attach it to this form. Remember to write your name and national insurance number at the top of any separate sheet if you are a member. Or, if you are not a member, put the member's name and national insurance number at the top of any separate sheet.

5. Your signature

I would like my complaint to be considered and a decision to be made about it. I am a:

· Scheme member/former member/prospective member * · Dependant of a former member * · Member's representative/dependant's representative * * delete as appropriate	
Signed:	Date:

6. Please enclose a copy of any notification of the decision you are complaining of which has been issued by the employer or administering authority. Also enclose any other letter or notification that you think might be helpful.

PLEASE SEND THIS FORM TO:

Stage 1 of the internal dispute resolution process:

Corporate Finance Manager, Suffolk County Council, Endeavour House, Ipswich, Suffolk, IP1 2BX.

Stage 2 of the internal dispute resolution procedure:

Head of Legal Services
Suffolk County Council
Endeavour House
Ipswich, Suffolk
IP1 2BX

Note: This note provides a straightforward guide to how the internal dispute resolution procedures operate in the Local Government Pension Scheme, and is provided for general information only. It does not cover every aspect. It is not an interpretation of the scheme regulations. In the event of any unintentional differences, the scheme regulations will prevail. This booklet does not confer any contractual or statutory rights.

Time limits under the Internal Dispute Resolution Procedure

Your situation	To complain to	Time Limit
You have received a decision on your benefits under the pension scheme from your employer/administering authority, and there seem to be good grounds for complaining.	The nominated person under the first stage of the procedure.	6 months from the date when you were notified of the decision
You have received a first stage decision on your complaint from the nominated person, but you are not satisfied.	The relevant administering authority under the second stage of the procedure.	6 months from the date of the nominated person's decision
You made your complaint in writing to the nominated person, with all the information they needed but, 3 months later, you have not received their decision on your complaint or any interim reply.	The relevant administering authority under the second stage of the procedure.	9 months from the date when you submitted your complaint.
You received an interim reply to your complaint to the nominated person, within 2 months of applying to them. Their reply promised you a decision by a specified date but, one month after the specified date, you still have not received their decision.	The relevant administering authority under the second stage of the procedure.	7 months from the date by which you were promised you would receive a decision
Your complaint is that your employer or administering authority have failed to make any decision about your benefits under the pension scheme	The nominated person under the first stage of the procedure	6 months from the date when the employer or administering authority should have made the decision.
Your complaint went to the administering authority under the second stage of the procedure. You received their decision but you are still not satisfied.	The Pensions Ombudsman. Note that the Ombudsman will normally expect you to have asked TPAS for help first.	3 years from the date of the original decision about which you are complaining.

You have taken your complaint to the administering authority under the second stage of the procedure but, 2 months after your complaint was received by the authority, you have not received their decision on your complaint or any interim reply.	The Pensions Ombudsman. Note that the Ombudsman will normally expect you to have asked TPAS for help first.	3 years from the date of the original decision about which you are complaining.
You received an interim reply to your second stage complaint to the administering authority, within 2 months of applying to them. Their reply promised you a decision by a certain date but, by that date, you still have not received their decision	The Pensions Ombudsman. Note that the Ombudsman will normally expect you to have asked TPAS for help first.	3 years from the date of the original decision about which you are complaining.

Suffolk County Council

Agenda Item 6

Suffolk Pension Board

Report Title:	Investment Managers
Meeting Date:	16 December 2015
Chairman:	Councillor Richard Smith MVO
Director:	Geoff Dobson, Director of Resource Management Tel. 01473 264347
Author:	Paul Finbow, Corporate Finance Specialist Tel. 01473 265288

Brief summary of report

1. This report provides the Pension Board with details of the investment managers

Action recommended

2. The Board is asked to note the report.

Reason for recommendation

3. The Pension Board is aware of the rationale behind the investment manager structure.

4. There are no alternative options.

Main body of report

5. As at the end of September 2015 there were thirteen investment managers managing fifthteen investment mandates. A list of the investment managers, their mandates and inception date of the mandates is attached as **Appendix 1.**

6. In 2012, the Pension Fund Committee made a decision to diversify some of the asset classes that it invested in, to spread the risk and to help manage the volatility of the market. These alternative asset classes, such as infrastructure and timber require specialist investment managers to get the appropriate risk and return in such specialised markets and cannot necessarily be managed most effectively in multi asset class portfolios.

7. The Pension Fund Committee reviews the performance of the investment managers and the rating placed on them by Hymans on a quarterly basis. The September 2015 report received by the Committee on 30 November 2015 is attached as **Appendix 2.**

8. The Chairman and Vice Chairman of the Committee, along with the officers of the Fund and the independent adviser Mark Stevens, meet with the managers face to face on a regular basis to discuss performance and changes to the investment management. A report on the meeting held on 2 November 2015 is attached as **Appendix 3.**

9. The Committee made a decision to terminate the investment mandate held by BlueCrest on 30 November 2015 as of immediate effect. The investment will be

realised on 4 January 2016 and the relationship will remain in place until the Fund has received all its money back.

10. The Brookfield mandate will close to further investments at the end of February 2016.

11. A decision was made on 3 June 2015 to invest £100m in private equity, this was awarded to Pantheon. The Wilshire mandate will be left to run its course until all investments have been realised over the next 5 to 7 years.

12. The Pension Fund Committee is mindful of the number of managers utilised in the investment of the Fund's assets. When additional investments have been decided upon the Committee has taken advice from Hymans as to whether any of the existing managers are rated highly in Hymans investment manager rankings list, which was the case with awarding the Bond mandates to M&G and BlackRock.

13. If the existing managers cannot meet the Committee's investment requirements or are not ranked highly enough by Hymans then the Fund would seek to engage another manager.

Sources of further information

a) None

Appendix 1

Investment Managers mandates

Manager	Mandate	Value £'m	Holdings %	Inception Date
BlackRock	UK Equities	190.5	9.1	July 2007
BlackRock	Bonds	123.4	5.9	June 2015
BlueCrest	Absolute Return	39.2	1.9	Sept 2012
Brookfield	Timber	8.4	0.4	Sept 2012
KKR	Infrastructure	41.1	2.0	Dec 2012
Legal & General	Multi Asset – Passive	682.1	32.7	Sept 2000
M&G	Distressed Debt	42.2	2.0	Sept 2012
M&G	Bonds	170.1	8.2	May 2015
Newton	Global Equities	299.8	14.4	July 2007
Pantheon	Private Equity	30.2	1.4	Mar 2003
Partners	Infrastructure	14.7	0.7	Dec 2012
Pyrford	Absolute Return	122.8	5.9	Sept 2012
Schroders	Property	238.6	11.4	Mar 2006
Wilshire	Private Equity	39.4	1.9	Mar 2003
Winton	Absolute Return	43.5	2.1	Sept 2012
	Total	**2,086.2**	**100.0**	

Appendix 2

Suffolk County Council Pension Fund

Review of Investment Managers' Performance for the Third Quarter of 2015

Prepared By:

Matt Woodman - Senior Investment Consultant
David Millar - Senior Investment Analyst

For and on behalf of Hymans Robertson LLP
November 2015

Contents

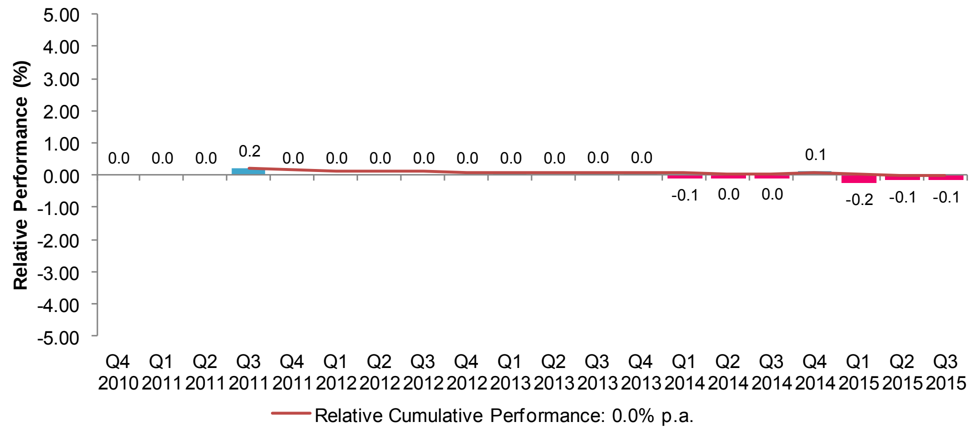
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Legal & General (Passive Multi-Asset)

HR View Comment & Rating

Since our comment in last quarter‟s report on senior management changes at LGIM, there have been no further significant changes affecting the management of the Fund‟s assets and we continue to rate L&G as one of the top passive managers in the market.

Relative Quarterly and Relative Cumulative Performance [i]



Recent News Comment

Both the component funds and overall portfolio continue to track their benchmarks within the expected tolerances.

Performance Summary - Table

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-6.2	-0.7	6.4	7.4
Benchmark	-6.1	-0.5	6.5	7.4
Relative	-0.1	-0.3	-0.1	0.0

* Inception date 31 Mar 2004.

Source: [i] DataStream, Fund Manager, Hymans Robertson, WM/State Street

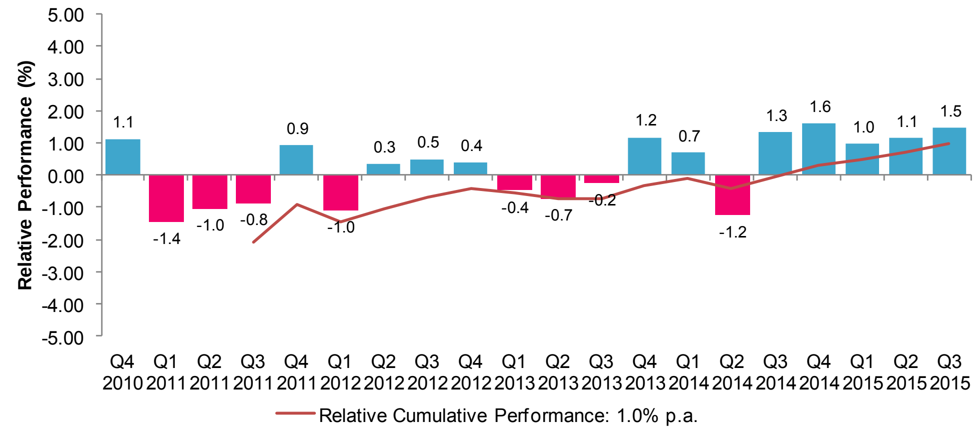
BlackRock - UK Equity

Recent News & Rating

Rating				
Replace		On Watch		Retain

There have been no significant changes since our last report and we continue to rate BlackRock highly.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

Although posting a negative absolute return, the BlackRock UK Equity portfolio outperformed the falling market over the quarter by 1.5%. This continued their strong run of relative performance; the fund has outperformed its benchmark by 5.3% over 12 months and by 2.1% p.a. over 3 years.

The biggest contributor to outperformance was a zero holding of mining stock GlenCore which added 0.75% to relative performance on its own. The mining sector fared poorly over the quarter and GlenCore in particular. The next best contributor was the funds holding of Reed Elsevier (the publisher, now called RELX) which rebounded on strong results and more favourable investor sentiment towards defensive companies. This holding added 0.46% to relative performance. BlackRock"sallocation to their Smaller Companies Fund was again a contributor to outperformance over the quarter as small companies outperformed the All Share Index.

BlackRock remain reasonably positive on the outlook for UK equities although they expect a higher than normal level of volatility. They remain overweight in higher quality cyclical stocks and also continue to look for companies with strong “self-help” credentials (which are able to perform strongly independent of any external factors) and which are less reliant on a specific macroeconomic outcome.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-4.3	2.9	9.5	7.7
Benchmark	-5.7	-2.3	7.2	6.7
Relative	1.5	5.3	2.1	1.0

3 Year Relative Return

Actual % p.a.	Target % p.a.
2.1	2.0

3 Year Tracking Error

Actual % p.a.	Target % p.a.
1.9	-

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

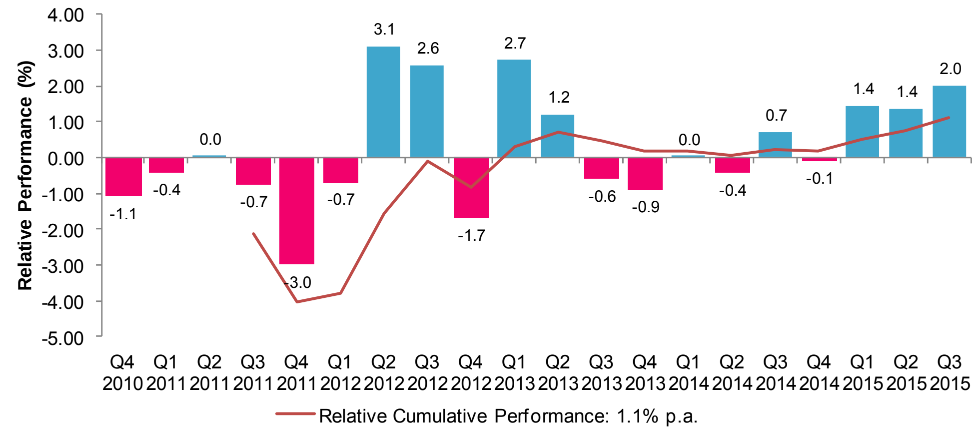
Newton - Global Equity

Recent News & Rating

Rating		
Replace	On Watch	Retain

In July Newton announced that portfolio manager, Raj Shant (12 years at Newton) will relinquish his Pan European portfolio management role in order to concentrate on global equities. Shant was already sitting in on global equity team meetings. This will have no impact on Jeff Munroe"s role as Head of Global Equities. Another global equity portfolio manager, Paul Markham, will continue to lead on European and Asian mandates and will move from alternate to lead manager for the Pan European portfolios except for the Newton Continental European Fund where the lead role will be taken by Emma Mogford, a portfolio manager on the UK equity / multi-asset team. Mogford will also sit in on global equity meetings. We have some concerns over the constant diet of change at Newton but are broadly supportive of the changes made in recent years; we will look to meet Raj Shant in due course, and our rating remains at „5 – Preferred Manager".

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The Fund outperformed a negative return from its benchmark over the quarter. At a regional level, the Fund's underweight to Emerging Markets was a significant positive contributor (Emerging Markets being the poorest performing equity region, particularly impacted by concerns over China). In sector terms, Information Technology was the top contributor with Google the portfolio's best performing stock. The underweight to the poorly performing energy sector was also beneficial. Conversely an underweight to utilities (and particularly holding Centrica) was detrimental.

Performance over the longer term remains ahead of benchmark, with the last 12 months being particularly strong at +4.8% relative to benchmark – the defensive positioning has helped, keeping absolute returns in positive territory despite the benchmark posting a marginally negative return over 12 months.

Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-4.1	4.7	11.4	8.9
Benchmark	-6.0	-0.1	9.3	7.7
Relative	2.0	4.8	1.9	1.1

3 Year Relative Return

Actual % p.a.	Target % p.a.
1.9	2.5

3 Year Tracking Error

Actual % p.a.	Target % p.a.
2.6	5-7

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder - Property Fund of Funds

Recent News & Rating

Neil Turner who has been Head of Indirect Investment and Research, with overall responsibility for both listed and unlisted strategies has joined the senior management team. He was originally involved in the development of the multi-manager business in 2005, working alongside the then Head of Multi-Manager, Jenny Buck. Turner currently also chairs the indirect investment committee and hence has knowledge of portfolio strategy although he does not yet have the detailed knowledge of the underlying vehicles. Schroder has also sought to broaden the role of the remaining members of the team. Patrick Bone and Gianlorenzo Polella, who both have 8 years investment experience, are to be given fund management responsibilities. Schroder is recruiting for both Senior and Junior Analyst roles, Jeremy Marsh, currently Head of UK Real Estate Research, is to provide senior analyst support on an interim basis. Given the underlying illiquidity of the assets – indirect property portfolios do not change quickly – we believe that the risk to clients arising from the changes is relatively low. We have previously downgraded (and now maintain) our rating of Schroder"s indirect property management capabilities to "3: On Watch" due to management changes, although we do not believe clients need do more than monitor the position at the current time.

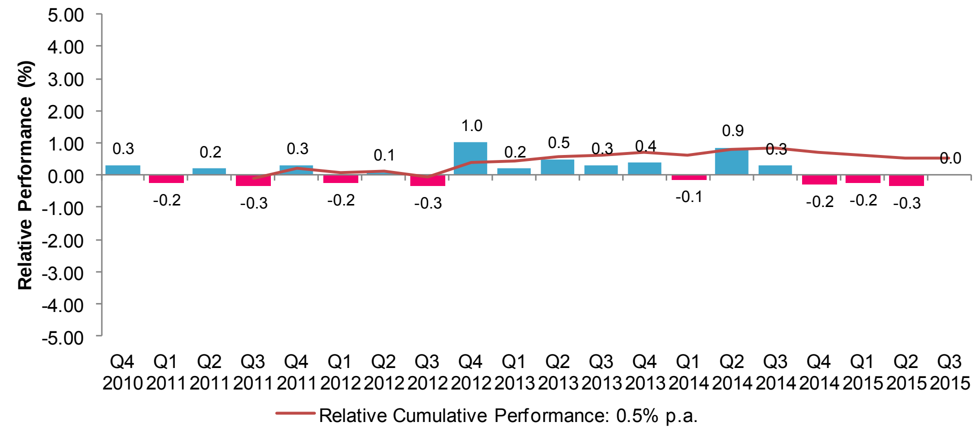
Comment

The Schroder property portfolio continued to produce a positive absolute return over the quarter (3.0%), in line with its benchmark (3.0%). 12 month returns remain strong although marginally below benchmark. Longer term, over 3 and 5 years, performance is ahead of benchmark and is strongly positive in absolute terms.

Over the quarter, both core and value added funds marginally outperformed the benchmark, with cash holdings bringing the overall return back in-line with the benchmark. Industrial holdings contributed positively to relative returns. Over the longer term, the added value has come from the non core properties. Over 12 months, the underperformance can be almost exclusively attributed to the cash holding (core funds marginally underperformed as well but cash impact was -0.8%).

Schroder continue to favour office and industrial sectors in the regions. Undrawn commitments reflect this with undrawn subscriptions remaining to Multi-Let Industrial PUT (£6.8m), Mayfair Capital PUT (4.4m) and Threadneedle PUT (£4.8m), the latter two are balanced funds with high regional office and industrial exposure). Cash at end quarter in the portfolio was £16.4m (6.7%), but of this only £0.42m is uncommitted. Schroder is also finalising a new Regional Office PUT in which they intend to allocate capital to reduce underweight exposure to regional offices.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary - Table[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	3.0	13.5	12.7	9.4
Benchmark	3.0	14.4	11.7	8.8
Relative	0.0	-0.7	0.9	0.5

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.9	0.75

3 Year Tracking Error

Actual % p.a.	Target % p.a.
0.9	-

Source: [i] Fund Manager, Hymans Robertson, Investment Property Databank Limited, [ii] DataStream, Fund Manager, Hymans Robertson

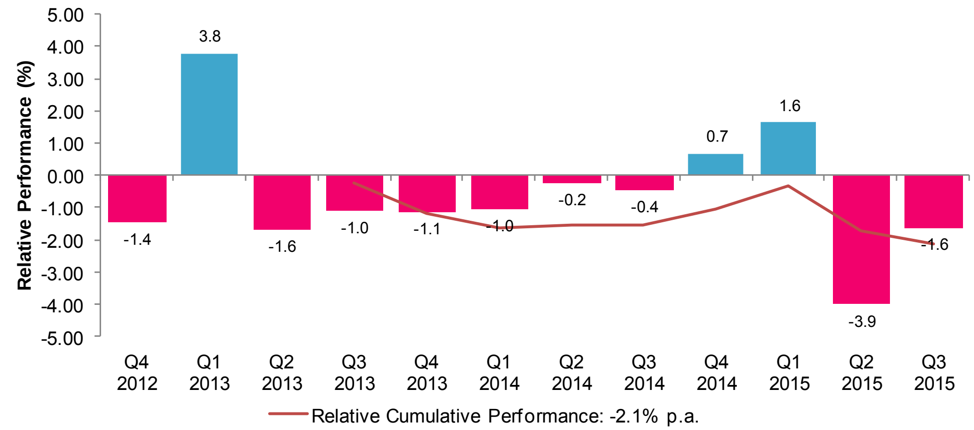
Pyrford - Absolute Return

Recent News & Rating

Rating				
Replace		On Watch ●		Retain

In Q2 we downgraded the Global Absolute Return Strategy from 4 – "Retain" to 3 -"On-Watch". We are generally supportive of Pyrford"s relatively straightforward approach to absolute return multi-asset investing. The fund has produced a consistent absolute return since its inception and has been particularly successful in protecting capital during periods of market stress, such as the financial crisis in 2008. However with low return expectations for equities and government bonds we are concerned that the fund will struggle to meet its target return of RPI +4% and we therefore believe it prudent to put the fund "On-Watch". We are monitoring the situation closely and met with the manager during Q3 as part of this process. We continue to keep the fund on-watch. There were no further significant updates during the third quarter to end of September 2015.

Relative Quarterly and Relative Cumulative Performance [1]



Comment

The fund generated a marginally negative net return of -0.2% over the quarter which provided a good level of protection relative to the equity market (which Pyrford's mandate is designed to partially protect). Returns were mixed across the sub-asset classes. The VIX – an index which measures investor expectations of volatility – jumped to a 6 year high in August and global equities suffered one of its worst months since the financial crisis. There was dispersion on a regional basis with Emerging markets down -14.6% over the quarter. The US and Europe drawdowns were more muted but still negative. The portfolio remains defensively positioned with no exposure to UK and EU banks and limited exposure to cyclical sectors. The fund"s allocation to UK equities added to performance despite the FTSE All Share falling by 5.7% over the period. However, overseas equities detracted from performance with Asian stocks (including Malaysia, Australia and Singapore) showing particular weakness following the slow-down in China. The fund continues to adopt a cautious position by holding a short duration bond portfolio in order to protect the capital value from the anticipated interest rate rises. This meant that the portfolio lagged behind the UK and overseas government bond markets as these were less sensitive to the rise in yields over the quarter. However, sterling weakness over the quarter meant that overseas currency exposure contributed to performance.

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-0.2	2.3	3.4
Benchmark	1.4	5.7	5.6
Relative	-1.6	-3.2	-2.1

* Inception date 31 Aug 2012.

[1] Excludes initial part quarter (1 month to 30/9/12)

Source: [i] DataStream, Fund Manager, Hymans Robertson

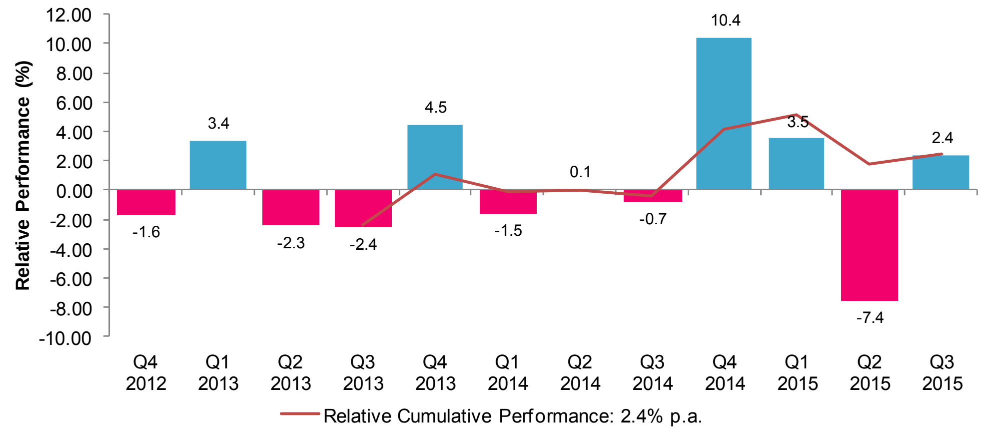
Winton - Futures Fund

Recent News & Rating

Following the departure of the firm"s CEO in 2014, Tony Feitter-Lao, David Harding assumed his responsibility as CEO. At the time he was also Chairman of the board of directors. To improve governance and independent oversight, Winton Capital recently appointed Sir David Walker as Chairman. Walker joins from the Chairman position at Barclays which he has held since 2012 and started in July.

The firm continues to expand its global presence and has hired two investor relations personnel to the Shanghai office which opened January.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The fund returned 3.8 over the quarter, as performance recovered in September following losses in August. The fund was well hedged over the course of the initial stock market fall in August. As concerns over the slowdown in China"s growth led to wide spread risk aversion, fixed income markets were the beneficiary. Developed market government bonds were a key contributor to performance for the strategy in Q3 as talk of a Fed rate rise September turned out to be for nothing as concerns over global growth led to policy makers expressing intentions to hold off on any rate rise for longer. As a result US yields drifted lower benefitting those funds with long exposure to government bonds. UK and European government bonds also saw yields fall and in Canada the central bank announced a surprise rate cut in July.

The general decline in commodity prices also provided good trend following opportunities in the third quarter, although there were some events that led to reversals in specific markets. Energy markets continued to trend lower. In particular natural gas fell to a five-month low during the third quarter as forecasts of mild weather in the US dashed hopes of early heating demand. As a result of the recent VW scandal involving their diesel vehicles, platinum continued to fall but palladium reversed its trend and rallied in September. Catalytic converters in diesel vehicles use platinum whereas those in petrol cars use palladium.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	3.8	14.5	8.3
Benchmark	1.4	5.7	5.7
Relative	2.4	8.4	2.4

* Inception date 30 Sep 2012.

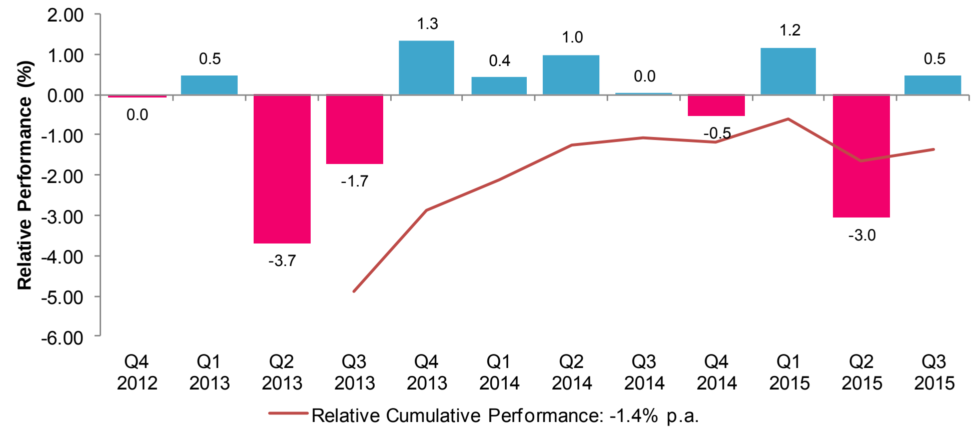
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

BlueCrest - AllBlue Mandate

Recent News & Rating

We have downgraded BlueCrest"s rating to "sell". This is due to a number of management changes and a change to their fee scale. The details are discussed in the separate strategy paper.

Relative Quarterly and Relative Cumulative Performance [i]



Comment

The fund generated a positive return of 1.9% for the third quarter and is now up 3.7% over 12 months. This return was achieved with a correlation to global equities of 0.19 and annualised volatility of 4.3%. BlueTrend was the key positive contributor to performance over the second quarter, contributing 1% to the total return. The strategy once again demonstrated that it can perform particularly well during equity market downturns as the ability to exploit both upward and downward trends in markets enabled BlueTrend to benefit from the increase in volatility across equity, commodity and currency markets in third quarter. Fixed income markets benefitted from the widespread risk aversion and as equity markets fell, bond markets rose. Talk of a Fed rate rise in September turned out to be for nothing as concerns over global growth led to policy makers expressing intentions to hold off on any rate rise for longer. Against this backdrop BlueCrest Capital International, where the team focus on fixed income and currency trading, made a positive return over the third quarter with gains in European rates and the US yield curve. The VIX – an index which measures investor expectations of volatility – jumped to a 6 year high in August . The BlueCrest Equity Strategies was able to exploit the dispersion in individual securities through its long short approach to trading equities and generated a positive return over the quarter. From 1 July 2015, exposure to the BlueTrend strategy has been gained through BlueTrend 2x Leveraged which enables BlueCrest to access the same level of exposure but with half the capital. This has been redeployed to BlueCrest Capital International.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.9	3.7	4.2
Benchmark	1.4	5.7	5.7
Relative	0.5	-1.9	-1.4

* Inception date 30 Sep 2012.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

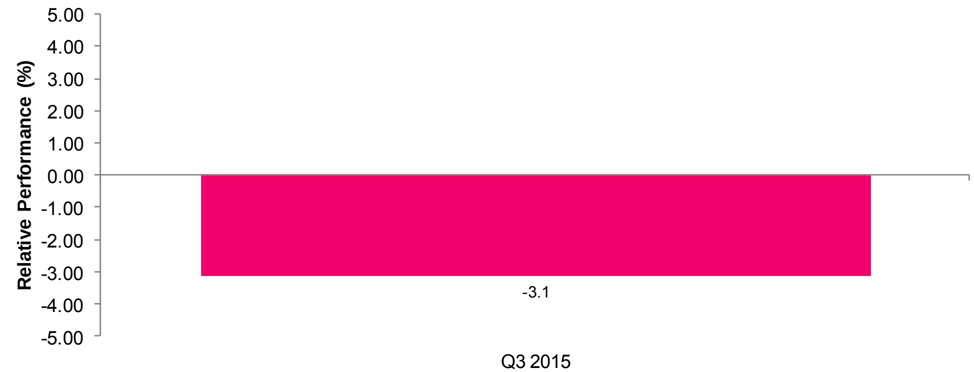
M&G Alpha Opportunities

HR View Comment & Rating

M&G is rated "5 - preferred provider" for global bonds.

No significant changes to report over the quarter to end September 2015.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Recent News Comment

The M&G Alpha Opportunities Fund returned -1.7% over the quarter, underperforming the cash benchmark by 1.6%. This performance is behind its target of LIBOR plus 3%-5% p.a. Credit markets suffered during the quarter, due to concerns over the Greek bailout, the Chinese economy, falling commodity prices and company specific issues. The Fund underperformed its cash benchmark during this weakness in credit markets. The manager sought to take advantage of what he perceived to be an emotional response of markets to these risk events to buy into weakness and find opportunities, particularly in longer dated credits. The manager increased the fund‟s exposure to US dollar securities, due to perceived attractive valuations. The manager also purchased several Portuguese Residential Mortgage Backed Securities and the subordinated debt of insurance companies, with a view to take advantage of volatility induced by the concerns surrounding Greece. The manager sold some of the more defensive holdings in the portfolio to quickly take advantage of opportunities in the market, including purchasing the debt of housing associations, and exposure to Volkswagen and Glencore. The manager believes that volatility will continue for the rest of the year, and that a „risk-off‟ regime has been introduced which should benefit long term investors of well researched and secure bonds.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-1.7	N/A	N/A	-2.9
Benchmark	1.4	N/A	N/A	2.3
Relative	-3.1	N/A	N/A	-5.1

* Inception date 28 Apr 2015.

[1] Excludes part quarter to 30 Jun 2015

Source: [i] DataStream, Fund Manager, WM/State Street, [ii] DataStream, Fund Manager, WM/State Street

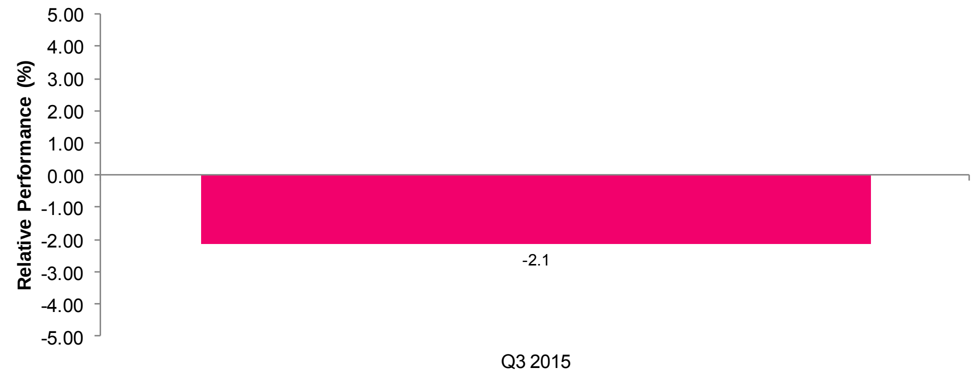
BlackRock Fixed Interest Global Opportunities

HR View Comment & Rating

BlackRock is rated "5 - preferred provider" for global bonds.

No significant changes to report over the quarter to end September 2015.

Relative Quarterly and Relative Cumulative Performance [1] [i]



Recent News Comment

The fund fell by 0.7% over the quarter, with markets driven by concerns over China and uncertainty over the timing and magnitude of tightening by the Fed. The Fund remains defensively positioned focussed on maintaining liquidity to protect downside and preserve flexibility. BlackRock do not think there is ample compensation for additional risk at this time. They believe that current volatility will persist and will only look to add exposure to sectors incrementally when they see value.

Performance Summary - Table [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.7	N/A	N/A	-1.0
Benchmark	1.4	N/A	N/A	1.8
Relative	-2.1	N/A	N/A	-2.7

* Inception date 04 Jun 2015.

[1] Excludes part quarter to 30 Jun 2015

Source: [i] DataStream, Fund Manager, WM/State Street, [ii] DataStream, Fund Manager, WM/State Street

Suffolk Pension Scheme
Manager meetings London: 2nd November 2015

This report covers the face-to-face fund manager meetings held with seven of the managers employed by the Suffolk Pension Fund, with BlueCrest Capital Management acting as hosts on this occasion. The seven managers presented on nine separate mandates. The meetings covered the difficult and volatile third quarter of 2015 and the outlook for the year ahead.

Overall the third quarter of 2015 was a very difficult time for markets, although the majority of our active managers once again delivered performance ahead of benchmark, the returns were still negative in absolute terms. As was the case in Q2 2015 the outlook remains a volatile one with attention increasingly focused on the Chinese economic slowdown and the knock-on affects now being felt across many economies and investment markets.

The timing of the expected US interest rate rise remains foremost in many investor's minds, however in a change to the sentiment from the early summer the continued delays in the move are now becoming the source of concern in itself. Despite these concerns, as mentioned in the last report, the divergence being seen in central bank policy is creating opportunities for active managers to deliver outperformance.

Additionally, the sell off in credits seen during Q3 has opened up opportunities for our credit mangers to utilise some of their "dry powder" defensive holdings and begin to pickup over sold bonds.

The meeting coincided with the approximate three year anniversary of three strategies that have formed the bedrock of the Suffolk Pension Scheme non property 'alternatives' portfolio. The mangers; Pyrford, Winton and BlueCrest all presented. The three managers between them manage over £200m in assets for the Suffolk scheme with Pyrford accounting for approximately 60% of this figure and the other two managers with approximately 20% each. In very broad terms and with acknowledgment to the different strategies and levels of risk being taken, Winton have had the best time with an 8.2% annualised return, BlueCrest have returned 4.17% annualised and Pyrford have achieved a 3.39% return. Please see below for more details on each of the mandates.

Blackrock: Active UK equity mandate (blended style growth orientation)

James Edwards (strategist, FIGO) and Fred Wood (client director) presented the equities report from Blackrock. Simon Betteley our usual client contact was not available on this occasion. Fred started the presentation with a quick run through of the main market drivers of the third quarter. These were dominated by concerns over slowing economic growth in China and the affect this slowdown was having not only on other emerging market and Pacific Rim economies, but on the earnings outlook for companies in developed markets selling into China either directly of indirectly down the supply chain. The severe weakness in many commodity markets including oil, continued to weaken many emerging market economies and currencies. The continued uncertainty about the timing of the inventible US rate rise was also highlighted and noted as a contributor to some of the market uncertainty seen in recent months. It was also noted that the outlook for any upward path in interest rates is looking increasingly benign and gradual for both the US and the UK.

James provided detail on the main contributors to performance over the quarter. In terms of stocks held, Carnival the cruise ship operator performed well, benefiting from lower oil prices. The portfolio also benefited from strong returns from defensive companies like BAT and Next, who continue to generate high levels of free cash flow. However, the largest relative positive for the portfolio over the quarter was a zero holding in mining company Glencore. The stock fell 63% over the quarter and had an average index weight of almost 1%. Being underweight in resources stock, has been a major contributor to relative performance for the past year but was described as a "crowded trade" by James. I took this to mean that most of the selling had taken place and in the absence of further bad news it might be time to reduce the underweight position.

In terms of performance Blackrock continue to deliver very credible relative returns. Over the difficult Q3 period the portfolio returned -4.3% against an index down -5.7%, this has given Blackrock a positive absolute return over the last 12months of 2.8% which is a relative return of 5.1% against a broader market which fell -2.3% over the same period. This very strong period of relative returns for the portfolio has fed through into the longer term, with Blackrock now 2.3% p.a. ahead over three years and 2.7% ahead of benchmark since inception. As mentioned in previous reports the changes Blackrock made to the team and process a few years ago, still seem to be paying off in terms of performance, long may this last!

Blackrock: Fixed Interest (Global absolute return)

James Edwards who works as a strategist in the Fixed Income Global Opportunities fund (FIGO) began the presentation with a quick recap on the way the risk budget of the portfolio is allocated and emphasised both the unconstrained (by benchmark) approach and the very diversified nature of the portfolio.

The fund does not typically take on interest rate risk in the way a benchmark relative bond portfolio would normally be expected to do. The FIGO fund can run with duration (that is sensitivity to interest rates) from 7 to -2 years and currently sits close to zero. The FIGO portfolio has a lower risk than the Barclays Global Aggregate index but has a slightly higher yield. This is achieved by investing in a more diversified selection of credits and non-traditional fixed income instruments often employed for hedging purposes.

As this was only the second meeting with this new strategy James went through once again how the process for investment is carried out. There were also a number of slides examining how the portfolio is currently positioned in terms of geographic, credit spread, exposure to currencies and how the duration of the portfolio is formed, including various long and short positions along the yield curve.

The rest of the meeting covered recent performance which is not particularly relevant for Suffolk as this is such a new investment. However, over the last month the fund was down about 0.5% and over the last quarter was down about 1%. The team are adding some emerging market currency risk to the portfolio as they expect a relief rally in this area as and when the Federal Reserve finally act and raise rates. Europe is another area of interest for the team particularly in the deleveraging banking sector.

Overall this was an informative meeting on a strategy that has many moving parts and it will be interesting to see how the various strategies play out over the medium term and in particular how these perform against a more traditional long only bond management style.

M&G Investments: Alpha Opportunities Fund (active credit)

This was the second meeting with M&G since the allocation of £175m into their global credit fund. We were also due an update on investments in M&G Distressed Opportunities funds I and II. This resulted in M&G arriving in numbers. Andrew Swan and Maria Stott from the client side. Richard Ryan (senior credit fund manager) covered the Alpha opportunities fund. The restructuring team reporting on DOF I and II were Andrew Amos (deputy fund manager, restructuring) and Andy Bishop (restructuring). The meeting was split into two with the team covering the Alpha opportunities fund presenting first.

Maria started by reiterating the objectives of the fund, which is to deliver performance via exposure to credit premium whilst minimising exposure to interest rate risk. The overall performance target is to beat LIBOR by 3-5% p.a. Andrew explained that although the portfolio is not taking interest rate risk it is exposed to shocks in the market that affect risk tolerance. For example, Chinese growth shocks. In fact since the first investment into this fund by Suffolk Pension scheme there had been a number of market shocks and the portfolio has had a negative return.

Much like Blackrock (FIGO), the period since first investment has been too short to gain any meaningful information. Contained in the report was the since inception figures showing the fund down 1.31%, a number of other indices were shown, both European and Sterling based, which were down between 2% and 4.4%. This illustrated the difficult time credits have had over the last few months. The M&G fund has been defensively positioned and with no interest rate risk and has therefore not fallen as much as the indices.

The balance of the meeting was spent going through a number of the recent shocks to markets, including the sell off in Glencore and how M&G have closely monitored credits that have been sold off in panic over the summer. These conditions have allowed stock picking managers like M&G to pick up yields in bonds disproportionate to the actual risks being run. Examples of RWE and Casino Guichard were covered in some detail with the help of slides showing the changing yields over the summer and early Autumn. There was some very helpful detail on how certain credits would behave in the case of a credit downgrade and how coupon re-sets can provide good protection to investors who have a solid understanding of the underlying balance sheet health of a company in a panicking market.

The recent nervousness has allowed M&G to deploy a significant amount of the defensive assets that had been held for just such market conditions. The amount of defensive assets held in the portfolio fell from almost 20% to just 8.6% over the quarter. This seems to be M&G operating in just the way we would expect and assuming their stock picking skills hold up then performance should begin to pick up as markets stabilise.

There was a slight switch in personnel and the managers from the DOF team replaced Richard Ryan. The second presentation started with a very brief re cap on DOF I which is fully invested and should deliver more than its 15% IRR target as it begins its formal run down from next June. 17% of the investment has already been returned and there is some expectation for a further distribution back to Suffolk over the next six months, thereafter the fund will go into scheduled liquidation. The remaining eight investments are stable and on track to deliver the expected returns. All have undergone the required restructuring.

DOF II is now 72% drawn and will continue this process until June 2016, currently it has made 14 investments across 10 sectors in 7 countries. Performance is not really meaningful at this stage for a fund of this type but the report did included a since inception return of 6.83% net of fees. In the slide pack was a useful time line of how investors should expect this type of fund to evolve. In years 0-2, the fund makes initial investments, drawing down investors' capital as assets are purchased (this is the current DOF II position). In years 0-4, proceeds from the assets that have been exited and or dividends/coupons will be reinvested (occasionally partly returned as we saw in DOF I). In years 4-5 (with an option to extend to 7 years) proceeds from assets that have been exited and any coupons/dividends will be distributed to investors.

Overall another useful update from the M&G DOF team and so far the process seems to be on track. I have to say that no one can accuse M&G of not putting the resources into presenting to us, this was a large contingent with the right specialists and I think the information that came across was all the clearer for this.

Newton: actively managed global equity

With David Moylett (client director) unavailable on this occasion, it was Paul Markham (fund manager) presenting the Q3 report from Newton. At the last meeting with Newton we discussed to market concerns about slowing Chinese growth and the timing of US rate rises. These concerns that drove the summer volatility were an even stronger negative over Q3. It was a quarter that generated extreme divergence in sector returns with best performing sectors Consumer Staples and Utilities up around 2%, whilst the worst performing sectors Energy and Materials fell over 15% and 16% respectively. Given the announcement of some disappointing jobs and GDP data in the US it is now the Newton view that it would be an error for the US Federal reserve to raise rates now. In concluding the round up of the investment landscape Paul reiterated the view that Emerging market fundamentals remain poor, impacted as they are by falling commodity prices, currency weakness and a slowing China.

Performance for the quarter was negative -4.1% compared to a benchmark of -6%. This relative outperformance continues a very good period of relative returns for Newton who have benefitted from taking a fairly defensive approach during a period of market nervousness. Over one year, the portfolio has returned 5.1% against a flat benchmark. Over three years, Newton are now 2.25% p.a. ahead of the benchmark which is within touching distance of the investment objective of 2.5% p.a. over a rolling three years. This very credible three-year performance has fed into the longer term numbers where the portfolio is now 1% p.a. ahead since inception in 2007.

The rest of the meeting was concerned with a number of stock examples, with Paul spending time to explain the main positive and negative stock contributions over Q3. Highlights on the positive side included Google that is delivering on a number of fronts beyond search, with YouTube going from strength to strength and the increasing screen size of smart phones allowing for a better platform for advertisements. The tobacco company Altria was very strong over the quarter and remains highly cash generative.

On the negative side, two holdings that detracted from performance over the quarter were Trip Advisor where there was some concerns over cash generation and Trimble Navigation (3D surveying & agricultural automation), where prior to results the stock underperformed on concerns over exposure to a weakening agricultural sector. However, both companies rebounded after the quarter end on stronger than expected results and in the case of Trip Advisor, the announcement of a strategic partnership with on-line hotel bookings.

The presentation concluded with a number of slides linking Newton's investment themes to specific stocks in the portfolio and in particular how the data revolution is impacting the positions in the portfolio. Overall another positive meeting albeit within the context of difficult and nervous Global markets.

Winton: Systematic Hedge Fund

Jonathan Anayi (Head of UK clients) presented the Winton report. It was Jonathan who gave us the interesting training session on quantitative techniques during September training day. This was a fairly short and straightforward presentation focusing on the recent performance. The report itself is a standard one, that I would imagine all clients in the Winton Futures fund get to see. It does contain a lot of detail about these methods used by Winton the portfolio construction methodology and some of the areas of active research. However, as these do not change very often most of the meeting will be spent going though the performance of the strategies that have either contributed or detracted from this performance.

The fund made 3.83% over the third quarter. Long positions in short term interest rates and short positions in gas and WTI oil futures were also positive performance drivers over the quarter. Detractors included being long in US $ and long equity indices. A separate equity strategy, that of individual cash-equity market neutral positions made good returns over the quarter. Over the period, the largest portion of the 'risk budget' was utilised on rates and energy positions which both proved profitable. Although Winton did enjoy a good quarter it was volatile, with the fund down over 4% in August before bouncing back again in September.

Jonathan updated us that October had been a difficult month where the fund had lost 2%. This has left the whole strategy flat for 2015 YTD. With all the volatility and nervousness in markets it might be tricky for Winton's trend following models to make much progress. Jonathan produced a slide showing how low the correlation is between the Winton fund and various Equity and Bond indices. As Suffolk hold this type of investment for the purposes of diversification away from bond and equity returns this is good to see. It is disappointing that so far 2015 has delivered a zero return, however as previously mentioned they have delivered the best cumulative performance over the last three years.

BlueCrest: Multi Strategy Hedge Fund

Host BlueCrest, were represented by Stephen William (consultant relations) and by Simon Dannatt (member of the allocation team) who has presented before. The first part of the meeting was taken up by a complete run though of the changes that have occurred within BlueCrest over the last year. These include the spin-off of the Blue Trend strategy into a separate company called Systematica (this has been covered in previous reports in some detail). However, Stephen covered a number of additional changes to BlueCrest and the AllBlue product that were new. There has been a change of personnel in the important role of Chief Risk Officer. Matthew Weir who had been in the role for six years has stepped down and been replaced by James Dean who has been with BlueCrest for ten years, most recently in the role of Deputy CRO.

There have been two changes to the fees charged to AllBlue by the sub funds it invests in. BlueCrest Mercantile (trade credits) is reducing its fee from 2% to 1.5% (good). BlueCrest Capital International (global macro) is now accessed via a different share class with a 1% management fee compared to the previous 2% (very good). However, this new share class has a 25% performance fee compared to the previous 20% (not good).

The final change covered at the meeting was a switch to the 2x leveraged share class in the BlueTrend fund (run by Systematica). This was explained as a capital efficiency move, with only half the previous level of cash now being used to gain the same market exposure (interesting but volatile) which we were informed allows for increased expose to other sub funds.

The rest of the meeting concerned performance and changes to the allocations within AllBlue. Year to date AllBlue has returned 2.76%, with April and June both negative by more than 1%. The product has returned an annualised return of 4.17% net of fees since initial investment in October 2012. In terms of sub strategy, five were positive year to date, with equity strategies (cash equity trading) and multi-strategy credit the strongest and capital international the largest detractor, largely because of sharp losses during April when the strategy was short in Swiss Franc at the time it spiked higher due to the removal of the peg to the €. Quantitative strategies, the equity market neutral fund has got off to a negative start after been carved out of BlueMatrix, which continues to be run by the team at Systematica.

In terms of the allocation changes this year, the largest were capital international moving from 16% to 21% and Equity Strategies moving from 10% to 17%. The cash allocation to BlueTrend appears to have reduced and is now at 5%. However, as mentioned above this is now a geared share class and so the exposure and volatility of the holding is in fact larger than previously held. The offsetting reductions are spread between credit, quantitative equity and mercantile.

Overall, it seems there is a feeling of constant change at BlueCrest, some of it quite major, others changes less so, however this is a strategy that charges high fees and has delivered a fraction over 4% since inception, which although in these difficult markets is not a major cause of concern, there is nothing here to get too excited about and the constant changes just flag up some concerns about future direction.

Pyrford: Absolute return fund using traditional equities and bonds

Pyrford were represented by Felim Glynn (client contact) who was joined on this occasion by Daniel McDonagh (head of portfolio management- Europe & UK). As this meeting marked the three year anniversary of Pyrford managing money on behalf of the Suffolk Pension Fund, Felim started by reiterating what the portfolio aimed to do. The key for Pyrford is not to lose money regardless of market conditions, the portfolio is constructed to beat inflation but with low volatility. The target of beating RPI by 5% p.a. has not been met, although Pyrford have beaten inflation. Since inception, the portfolio had returned 3.39% against a benchmark of 7.31%. Over the last year the returns are 2.28% against 5.94% for the benchmark.

As we had not met with Pyrford at the last meeting, Q2 was briefly covered. June was the worst month that the Pyrford fund had experienced since its inception in 1994. With bonds falling and both equities and the dollar also weakening. Even the more defensive holdings such as utilities suffered over concerns about high levels of debt. The portfolio lost 2.6% over the quarter, the majority of the fall being in June. Felim mentioned that 1.6% of this loss was from currency where Pyrford do not routinely hedge out risk.

Moving onto Q3, the portfolio has weathered the stormy markets reasonably well with a return of -0.19%, which although behind the RPI + 5% benchmark does look credible when viewed against a global equity index down almost 6%. It was the bond component of the portfolio that held up well over the quarter with both UK and Overseas bonds showing positive returns. The defensive nature of the UK equity portfolio generated flat returns against a falling market. Overseas equities faired less well, actually underperforming the wider market with a fall of -6.79%. In terms of individual contributions over the quarter, the bounce back in National Grid after a poor Q2 helped, as did the US Treasury bond that benefitted from renewed dollar strength. Unsurprisingly BP was the single worst contributor to returns falling as the oil price remains weak. Daniel mentioned that the BP dividend is now the main area of concern. The company appears willing to maintain the current payment level but with low oil prices this might only be possible for eighteen months. There have been no significant (or any?) changes to the portfolio over the last six-month and no changes to the bearish view of both equities and bonds which has remained consistent over the three years of the Pyrford relationship.

Brookfield : Timberlands Fund V (timber investment)

The shortest meeting of the day was with Julian Schiller (client director) from Brookfield. When we last met with Brookfield we were into the third year of the commitment period and they had only made one investment, the option to extend this investment period had been taken and a number of opportunities were being actively pursued in the US, Australia and Latin America. Unfortunately the changes to the timber market that were explored at the last meeting have proved even more profound than expected and none of these opportunities materialised into investments. Put simply, the large amount of institutional money that is now chasing these projects has driven returns down to such an extent that using the Brookfield teams' assumptions, the available rates of return range from less than 3% to negative over the life of the project.

The team are still evaluating two opportunities in Brazil and New Zealand, but no additional calls are expected during 2015 and the chances of these deals being landed did not appear particularly high. Given this state of affairs and with no likelihood of a significant change in the environment, the team have decided not to seek any further extension to the investment period and will not be seeking any further capital. This decision leaves Suffolk with only $9.3m of its $47 commitment invested. This single investment in Florestas Sustentaveis, Brazil appears to being doing well and is predicted to deliver a 6% yield, the fund has a ten year life from the investment close with a opportunity of two one year extensions.

It is frustrating to have waited this long only to end up with a sub scale exposure, it is also frustrating to have met with Brookfield a year ago and been given positive feedback on the many prospects they hoped to land only for each one to disappear. It could also be an issue that Brookfield misread the market early in the investment period and held back in order to find better opportunities only to find the market become even more competitive as time moved on. None of this changes the fact that the committee will now need to decide how to allocate the residual funds.

Mark Stevens

November 2015

Suffolk County Council

Agenda Item 7

Suffolk Pension Board Forward Work Programme

Purpose

The purpose of this forward work programme is to support the Pension Board in promoting and strengthening corporate governance across the Council.

Terms of reference

The terms of reference of the Pension Board are:

a) to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS
b) to secure compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator
c) to secure the effective and efficient governance and administration of the LGPS for the Suffolk Pension Fund.
d) in such other matters as the LGPS regulations may specify
e) to provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest

Meeting date (see Note)	Added to Work Programme	Subject	Short description	How is it anticipated the Committee will deal with this issue?
Friday, 11 March 2016	Added 28 September 2015	Risk Management	Review of Fund's monitoring and attitude to risk.	Written Report
	Added 28 September 2015	Passive and Active management of investments	To receive a report on the Fund's proportion of passive and active mangemnet.	Written Report
	Added 28 September 2015	Communication plan	To consider a report on the Board's communication plan..	Written Report
	Added 28 September 2015	Complaints and Compliments	To receive a report on the complaints and compliments received by the Fund	Written Report
	Added 28 September 2015	Forward Work Programme	To approve the Forward Work Programme for the Pension Fund Committee.	Written Report
Monday, 11 July 2016	Added 28 September 2015	Investment Performance of the Fund in 2015-16	To receive a report on the investment performance of the Fund in 2015-16.	Written Report
	Added 28 September 2015	Complaints and Compliments	To receive a report on the complaints and compliments received by the Fund	Written Report

Meeting date (see Note)	**Added to Work Programme**	**Subject**	**Short description**	**How is it anticipated the Committee will deal with this issue?**
Monday, 11 July 2016	Added 28 September 2015	Forward Work Programme	To approve the Forward Work Programme for the Pension Fund Committee.	Written Report

Note: Additions and amendments to previous Forward Agenda are marked in bold.

If you have any questions or queries, please contact Paul Finbow. Email: paul.finbow@suffolk.gov.uk, Telephone: 01473 265288.

Revised – December 2015.