



Marcus Jones MP  
Minister for Local Government  
Department for Communities & Local Government  
Fourth Floor, Fry Building  
2 Marsham Street  
London SW1P 4DF

7 April 2016

Dear Minister,

## **INVESTMENT POOLING**

Thank you for your letter dated 24 March.

As the Chairmen of LGPS Funds, who are joint signatories to the ACCESS proposal, we have scheduled a series of regular meetings to develop our pooling model. The most recent meeting took place on Tuesday, 29 March which, in addition to receiving updates on progress and considering developments on pooling structures, enabled us to discuss your letter collectively.

Following legal opinion, received earlier this month from both Eversheds and Squire Paton Boggs, our officers have highlighted two main potential ways forward: the fully regulated Collective Investment Vehicle or CIV (the Authorised Contractual Scheme route) and the Collective Asset Pool (CAP).

We have two immediate concerns:

1. the future decision making role within a new pool structure for Elected Member representatives of constituent Funds; and
2. the demands of fully addressing the criteria by 15 July.

### **1. Elected Member decision making within a new pool structure**

The guidance issued in November 2015 made it clear that the selection of investment managers would no longer be expected to take place at Fund level, however your guidance is silent on Elected Member representatives from the constituent funds being party to a Pool's decision to select investment managers – indeed, it makes specific reference to the need to maintain democratic accountability, a desire which we all share deeply.

Your latest letter highlights your view that an entity regulated by the FCA is preferable and yet you also expect *“a single entity at the heart of any proposal, with responsibility for selecting and contracting with [investment] managers”* - and presumably with democratic accountability.

The ACCESS proposal includes the following aim:

*“To facilitate participating funds to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.”*

Perhaps you can advise us therefore how we achieve these objectives, as democratic accountability and fiduciary responsibility are regarded by all of us as vital.

Central to executing the fiduciary duty is meaningful influence and fully democratically accountable decision making within the Pools, including the selection of Investment Managers and governance of the pool. In the words of one of our signatories, not fulfilling that role could lead to circumstances whereby *“City institutions appoint other City institutions”*.

We question strongly whether such an end state was the original intention of the pooling initiative, and look forward to your clarification and further guidance on this matter in advance of our next meeting.

## **2. 15 July deadline**

Your letter highlights that we need to *“develop a detailed submission that fully addresses the criteria by 15 July”*. We feel it is incumbent upon us to underline the high degree of ambition implicit within this requirement.

The evidence-based approach adopted by ACCESS will, by definition, entail reliance on dialogue with and researched information from third parties. In conjunction with two other pools, legal advice pertaining to pooling structures was sought from both Eversheds and Squire Paton Boggs. Both were received in March and officers from ACCESS Funds have spent a day at the offices of each legal firm. In addition, our officers have met with transition managers, a City institution capable of servicing an Authorised Contractual Scheme as well as extensive discussions with the London CIV and colleagues from project Brunel. In common with a number of pools, we also commissioned C.E.M. in order to benchmark our costs – the response from which we do not expect until the latter part of May.

We highlight these actions in order to demonstrate our serious engagement with this process; however, a number of the steps outlined above require further iteration back to the legal parties as our understanding develops. This, in turn, places pressure on our project plan – a summary of which was included in our February proposal and was well received.

Given that each of the constituent Funds will require the time necessary under Regulations to take the Pool and individual Fund submission through local governance arrangements, including the approval of the Administering Authorities, it is appropriate to highlight to you that the Government’s timetable is very ambitious.

## **Conclusion**

Clearly, there remain a number of opportunities for reporting points to Government in the build up to the intended formal establishment of the pools in 2018 and we would welcome the opportunity to also discuss this with you in person at some stage.

We appreciate that your letter concludes with the suggestion of discussions with your officials during April. Our next meeting is scheduled for 22 April and will take place in London. This represents an ideal occasion for dialogue on both of the issues highlighted above, along with investment opportunities in infrastructure, where we also have concerns over the possibilities and expectations.

We look forward to hearing from you.

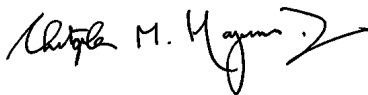
Yours sincerely,



Cambridgeshire County Council



Essex County Council



Hertfordshire County Council



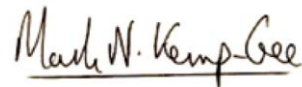
Kent County Council



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cc:

- All other proposed LGPS investment Pools
- Cllr Roger Philips, Chairman, LGPS Scheme Advisory Board
- Jeff Houston, Head of Pensions, Local Government Association