Investment, Governance and Engagement Sub Committee

Item 6 – Paper B

Asset Management Market Study – Consultation Response

The committee agreed in December that members should be invited to submit responses to the Secretariat who would prepare a draft response for approval by the Chair of the Committee and SAB Chair. Two responses were received from Colin Meech (UNISON) and Councillor Kieran Quinn on behalf of the Greater Manchester Pension Fund.

A copy of the approved response welcoming the FCA's interim findings is at **Annex 1.**

Recommendation – that the committee notes the consultation response

Annex 1

Becky Young
Competition Division
Financial Conduct Authority
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London
E14 5HS

17 February 2017

Dear Becky

Asset Management Market Study – Interim Report

Thank you for giving us the opportunity to comment on the FCA's interim report on their Asset Management Market Study. The following comments are made by the Local Government Scheme Advisory Board ("the Board") on behalf of the Local Government Pension Scheme in England and Wales.

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Investment, Governance and Engagement Sub Committee

The Board was established under the Public Service Pensions Act 2013 to advise the Secretary of State for Communities and Local Government on the desirability of changes to the regulations governing the Local Government Pension Scheme in England and Wales, including specific provisions on the investment and management of fund monies.

To begin with, the Board welcomes the FCA's interim report on their Asset Management Market Study which we regard as a highly significant event to everybody connected with a funded pension scheme.

Asset managers manage the investments of most of the £200 billion plus assets of the Local Government Pension Scheme in England and Wales. Their decisions have a direct bearing on the financial wellbeing of those who pay the scheme's costs, that is, employers, scheme members and taxpayers and it is only proper therefore that their role is open to vigorous examination to ensure that they offer value for money act in the best interest of all investors including LGPS pension funds.

In general, the Board fully supports the FCA's interim proposals on the remedies set out at paragraph 1.58. In particular, the Board welcomes the proposals for asset managers to –

- Be held to account for how they deliver value for money;
- Communicate their fund charges more effectively;
- Increase the transparency and standardisation of costs and charges, and to
- Clearly disclose fiduciary management fees and performance;

The Board would also like to make the following observations which have more specific relevance to the LGPS.

The interim report calls for more transparency and standardisation of costs. Investment fee transparency and consistency is a target for a revised CIPFA accounting guidance issued for inclusion in statutory annual reports and accounts. Transparency of investment costs is also included in the government's criteria for pooling investments. To assist LGPS funds to comply with the new accounting standard and for pools to be able to produce transparent costs, the Board has developed a voluntary Code of Practice for LGPS asset managers.

The initial template is designed to cover the listed market (equities, bonds and pooled funds) and an additional template is now under development for unlisted (private) markets, including private equity, property and alternatives. It is envisaged that the template would develop over time to encompass other more challenging areas of cost transparency and would remain flexible to enable changes to meet the rapidly developing market for investment products.

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The interim report examines the merits of active v passive management. There are examples within the LGPS where active management has been very successful with some funds having a demonstrable track record of outperformance. However, the Board recognises that other funds may not be achieving the same level of performance through active management of their assets and it therefore welcomes the FCA's statement that investors should be in a position where they are fully aware of the risks and costs associated with active management to ensure that the investments they make are appropriate and at a competitive price.

The report also proposes that the potential benefits of greater pooling of assets should be explored with government. The FCA will be aware that the 90 pension fund authorities in England and Wales are currently in the process of establishing 8 asset pools with assets worth in excess of £200 billion being transferred from the funds to the new pools with effect from 1st April 2018. It would be fair to say that the pooling agenda has been a massive learning exercise for all concerned and the Board would be happy to share this experience with the FCA and others in both promoting the benefits and explaining the complications associated with pooling scheme assets.

The interim report also casts doubts on the role of investment consultants. In the case of the LGPS, the regulations that govern investment decisions required decision makers to take proper advice which, by definition, would include investment consultants on whose advice key investment decisions may be taken. The Board therefore welcomes the FCA's proposal to review the role of investment consultants and, in particular, to address the potential conflict of interest identified at paragraph 1.53.

The Board would also support the proposal to introduce an all-in-one fee but unless backed up with a breakdown of the component costs, there is a risk that analysis of value for money at a granular level may be difficult.

Finally, we look forward to seeing the outcome of the interim report and stand ready to work closely with the FCA in taking this essential piece of work forward.

Yours sincerely

Cllr Roger Phillips
Chair of the Board

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