

Investment, Governance and Engagement Sub-Committee

Agenda

2.00pm – 4.00pm on 5th December 2016

Item

1. Introductions and apologies
2. Issues outstanding from predecessor committees (paper attached)
3. Terms of reference (for information) (paper attached)
4. Pooling investments - Update
5. MIFID II – Update (paper attached)
6. Investment regulations and guidance – Update (paper attached)
7. Transparent investment fees – Update (paper attached)
8. Call for evidence on social investment (paper attached)
9. AOB
10. Dates of next meetings



Room A & B, Layden House, 76-86 Turnmill Street

Farringdon, London EC1M 5LG

[Link to map of Layden House](#)

AGENDA ITEM 2

Investment, Governance and Engagement Committee

5 December 2016

Issues outstanding from predecessor committees

1. The purpose of the report is to update the committee on outstanding issues carried forward from the preceding Governance and Standards and Investment and Engagement committees.

James Goudie legal opinion

2. Following stakeholder concerns, the Local Government Association instructed James Goudie to provide opinion on the legal status of local pension boards; the legal relationship between the pension board and the LGPS administering authority and whether there is a conflict between the requirements of the 1972 Act and the 2013 Public Service Pensions Act with regard to membership of section 5(7) combined committee boards.
3. James Goudie concluded that local pension boards are constituted entirely under the 2013 Act and are not therefore local authority committees. In his opinion, this results in various practical difficulties such as access to council officers and indemnity insurance cover.
4. The legal opinion was endorsed by the SAB on 25 January 2015 with an undertaking to review and, if necessary, revise the guidance on the establishment of local pension boards to reflect Eversheds, as the SAB's legal adviser, has been commissioned to report on the amendments that will need to be made to the guidance to reflect James Goudie's legal opinion.

Nigel Giffin legal opinion

5. The Local Government Association instructed Nigel Giffin to provide opinion on the issue of whether a local authority or other body which is the administering authority for the purposes of the 2014 scheme might, in that connection, be subject to regulation by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. (FSMA).
6. The opinion was sought following a disagreement between the South Yorkshire Pensions Authority (SYPA) and their external auditors who were refusing to sign off the 2015/16 accounts without confirmation, legal or otherwise, that FSMA authorisation was not required in the case of SYPA. The South Yorkshire Passenger Transport Agency, administered by the SYPA under an agency agreement, is FSMA authorised which led the external auditors to believe that the SYPA should also be FSMA authorised.

7. In managing an LGPS fund, Nigel Giffin concluded that an administering authority is not carrying on a regulated activity, and does not therefore require FSMA authorisation. The opinion was sent to the SYPA with permission to forward it to their external auditor.
8. This case highlights the concern that external auditors may be falling short of the professional standards in terms of their understanding and knowledge of the LGPS. Informal discussions with the CIPFA Pensions Panel suggest that one option may be to establish a liaison group representing the main stakeholders who could meet regularly to monitor activity and share information.

The committee is asked to note the contents of these opinions

AGENDA ITEM 3

Investment, Governance and Engagement Committee 5 December 2016

Terms of Reference of the Investment, Governance and Engagement Committee

Constitution

1. The Local Government Pension Scheme Board (the Board) is constituted under Section 7 of the Public Service Pensions Act 2013 and regulations 110 to 113 of the Local Government Pension Scheme Regulations 2013.
2. Regulation 110 (4) provides that the Board may establish sub-committees and working groups as and when required, whether short-term or otherwise.

Remit and Scope

3. The committee shall consider items passed to it by the Board within the scope of Investment, Governance and Engagement related to the Local Government Pension Scheme. Such items may include a request for options to be brought back to the Board for further consideration and possible recommendation to the Secretary of State.
4. The committee may request that Board approve its consideration of other items, within the scope, as the committee judge to be significant to the effective running of the Scheme from time to time.
5. The committee should limit their considerations to the remit and provide, as requested, information and options to the Board which shall reserve to itself the ability to make recommendations and/or release such information or options to any third party.

Membership

6. The Chair of the committee shall be nominated from and agreed by the members of the Board.
7. Nominations for membership of the committee may come from the Chair of the Board, the Chair of the committee, members of the Board or the secretariat. In accordance with Regulation 111 (6) appointments to committees shall be made by the Chair of the Board with the agreement of the Board members.

8. The Chair of the Board together with the Chair of the committee shall seek to achieve a balance in the membership of the sub-committee between the various scheme stakeholders.
9. Subject to the needs of the committee, membership shall be limited to 20 members in total.
10. Appointed substitutes may attend if a committee member is unable to attend.
11. Substitutes shall be determined by the same method of appointment as members of the sub-committee.
12. Substitutes to be kept informed with agendas, papers and minutes to be circulated to them.
13. Members of the committee should make arrangements to ensure substitute members (and vice-versa where the substitute attends) are briefed on discussions taking place at each sub-committee.
14. Substitute members are not permitted to attend meetings in addition to the member of the committee
15. The Chair and members shall serve for no longer than five years and may be reappointed on no more than one occasion.

Work plan

16. Each committee is required to develop and submit a work plan for approval by the Board on an annual basis within the timescales advised by the Board. Committees shall strive to carry out the key areas of work in line with the agreed work plan but the work plan will be subject to flexibility to respond to other matters as they arise. The Chair of each committee must update the Board on a regular basis on progress against that sub-committee's work plan including any additional areas of work.

Transparency and Communication

17. The membership, appointment processes, meeting dates, agendas, and minutes of the committee shall be published regularly by the secretariat on an appropriate website. The Board may however choose to redact commercially sensitive or confidential information where Freedom of Information legislation so allows.

Agreement of reports to the Board

18. Where the Board have asked for a report on the item or items under consideration the report shall be subject to receiving the approval of the committee by consensus.

19. Consensus of the committee shall be determined by the Chair. However where consensus cannot be reached or where the view of the Chair is challenged, it shall not be put to a vote rather the Chair will notify the Board that a report cannot be produced by the committee.

Attendance

20. All committee members are expected to regularly attend meetings. Where a member of the committee fails to attend regularly, the Chair may seek for that person to be replaced.

Quorum

21. The committee will have formal quorum of 50% of the membership, rounded up where the membership is an odd number. Where the committee has failed to meet its quorum over two consecutive meetings, an agenda item will be placed on the following Board agenda to allow it to reconsider the terms of reference and/or membership of the committee if it is considered appropriate.

Frequency of Meetings

22. The Committee will meet a minimum of four times a year. The Chair may call meetings more frequently if deemed necessary or on the joint request of two or more committee members.

Declaration of interests

23. Each member of the committee will be expected to declare, on appointment and at each meeting any interests which may lead to conflicts in the subject area or specific agenda of that committee meeting.
24. It shall be the responsibility of the Chair for ensuring that the Board is made aware of and provided with the necessary information in relation to any conflict of interest which the Chair deems to be material to the work of the committee.

Administration

25. The Board Secretariat will agree an agenda with the Chair prior to each committee. The agenda and any papers for the committee will be issued at least 5 working days (where practicable) in advance of the meeting except in the case of matters of urgency.

26. The Board Secretariat will record high level minutes of each meeting including all actions and agreements which will be circulated to all committee members within 10 working days after the meeting. These minutes will be subject to formal agreement at the following committee.

Remuneration of committee members

27. Members of the committee or other attendees of committee meetings shall not be paid remuneration or expenses for attending

Personal Liability of committee members

28. *[This section to be added upon receipt of further advice from lawyers once appointed].*

Term of committee

29. The committee will remain in place while the Board so chooses.

1 August 2016

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AGENDA ITEM 5

Investment, Governance and Engagement Committee 5 December 2016

MIFID II Consultation Response

The FCA issued a third consultation paper on MIFID II in July 2016 with comments invited by 4 January 2017. A draft response (at Annexe A) is attached for the committee's consideration.

Report

1. The main points in the draft response include :-

- The re-classification of local authorities as retail investors is unnecessary;
- Pension fund authorities are already regulated by secondary legislation which requires them to take proper advice when making investment decisions;
- Properly considered investment strategies will be placed at serious risk;
- Elected professional status will be a time consuming process and may not provide fund authorities with an effective route to professional status;
- The proposed quantitative test represents a serious challenge to all but a small handful of internally managed funds, and
- The proposals fail to recognise the decision making process of those responsible for making investment decisions.
- Asset pools could provide an alternative to elected professional status with assistance from FCA

The committee is asked to approve the draft response for consideration by the Board.

**FCA consultation
Proposed response**

Q16:

Do you agree with our approach to revise the quantitative thresholds as part of the opt-up criteria for local authorities by introducing a mandatory portfolio size requirement of £15m? If not, what do you believe is the appropriate minimum portfolio size requirement, and why?

Summary

We are strongly of the opinion that:

- the reclassification of local authorities as retail investors is unnecessary and will have serious consequences for the effective implementation of pension fund investment strategies..
- The elective professional status process is not appropriate for local authorities and will require adapting to effectively assess their decision making structures
- Collective Investment Schemes can provide an appropriate route to the range of instruments needed by local authorities and with the assistance of FCA could negate the need to undergo the elective professional process
- Clarity is needed with regard to transactions made prior to 3rd January 2018

Classification

1. Before addressing the opt up criteria we would wish to state our disappointment that the reclassification of local authorities as retail investors is taking place. Local authorities in the UK have a robust track record of effective risk management with regard to investment and in respect of their pension funds considerable experience across a wide range of asset classes.
2. Furthermore investment by local authorities for pension fund purposes are subject to regulation (SI 2016 No. 946 PUBLIC SERVICE PENSIONS, ENGLAND AND WALES The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016) which include the requirement to take 'proper advice' when appointing investment managers.
3. This re classification will in our view place local authorities at a significant disadvantage when implementing properly considered and constructed investment strategies. In particular the reclassification to retail client status:
 - Will prevent authorities accessing the full range of asset classes and vehicles they currently use to execute investment strategy
 - Is inconsistent with the 'prudent person' approach provided for in the LGPS investment regulations 2016
 - Is inconsistent with the Government's desire for greater infrastructure investment by local authority pension funds
4. The provision for elected professional status, although potentially mitigating the impact of the reclassification, will result in authorities having to go through a significant and time consuming process which, depending on the nature of its application by managers, provides no guarantees that future investment strategies will be able to be effectively executed with existing managers or on existing terms.
5. Finally the timing of the shift of classification provides a significant challenge to the introduction, at the instigation of the Government, of asset pooling for local authority pension funds.

Election for professional status

6. Although the question refers only to the revised quantitative test we would wish to comment on the complete election process. We do not consider that the process as it stands provides local authorities with an effective route to professional status in regard to their pension fund activities.

Qualitative test

7. The qualitative test states that:
firms must undertake an adequate assessment of the expertise, experience and knowledge of the client to give reasonable assurance in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved (COBS 3.5.3R(1))
8. The existing COBS 3.5.4 states that
If the client is an entity, the qualitative test should be performed in relation to the person authorised to carry out transactions on its behalf.
9. Local authorities have structures of delegation and internal controls designed to ensure proper decision making, risk management and execution.
10. With regard to pension fund investments the decision to invest in a particular asset class or vehicle or to engage a firm will normally be made by a committee acting on behalf of the council. Investment decisions are a function of the local authority with pension fund responsibilities and as such, can only be discharged by a committee constituted under Section 101 of the Local Government Act 1972 or by an officer given delegated authority to make such decisions. Section 101 committees consist of elected members with support from officers of the council, statutory advisors and consultants.
11. The transaction itself would normally be executed by an officer with delegated authority to enact the decision of the committee.
12. When assessing a local authority for this test, firms should be able to do so in a consistent manner that reflects the decision making process and governance arrangements which led to the transaction. There is a concern that the wording of COBS 3.5.4 would lead to the assessing of the individual who executes the transaction on behalf of the council and not those who made the decision to enter into the transaction.
13. We would therefore ask that COBS 3.5.4 be amended to enable firms to assess collectively *the expertise, experience and knowledge* which resulted in the decision by the local authority as a body corporate to enter into the transaction.
14. Such an assessment would reflect the collective principle proposed for passing the 'fit' requirement in IORP II Article 23 1 (a) as below:

(i) for persons who effectively run the IORP, this means their qualifications, knowledge and experience are collectively adequate to enable them to ensure a sound and prudent management of the IORP;

Quantitative test

15. The quantitative test (based on COBS 3.5.3R(2)) requires that the criteria in paragraph (a) and the criteria in either paragraph (b) or (c) must be satisfied:
(a) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds £15,000,000

(b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters
(c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged

16. The first will be satisfied by local authorities in respect of pension fund activities however, except in very particular circumstances, the second will not. The LGPS Advisory Board's investigations in this area indicated that only 3 LGPS funds (all with internal investment operations) would have any possibility of meeting this test.

17. This means that local authorities must be able to pass test (c) in order to successfully complete the opt up process. As with the qualitative test the uncertainty lies in who is being assessed. COBS 3.5.4 does not apply therefore it is 'the client' against whom the assessment is made.

18. COBS 3.2 defines a client as

- (1) A person to whom a firm provides, intends to provide or has provided:*
 - (a) a service in the course of carrying on a regulated activity; or*
 - (b) in the case of MiFID or equivalent third country business, an ancillary service..*

19. The Handbook Glossary defines a person as

(in accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a partnership).

20. A local authority is a corporate body therefore the above would lead to the conclusion that the assessment in (c) should be against that body corporate. However the wording of (c) does not comfortably fit with that conclusion as it reads as if the firm should be assessing an individual. Although a local authority as a body corporate can possess knowledge of the transactions or services envisaged how can it work in the financial sector for at least one year in a professional position?

Pooled assets

21. Since November 2015, local authorities have been developing asset pools at the behest of Government. These pools will have a number of different structures and will therefore be subject to different impacts from the reclassification.

22. Where pools are operating Collective Investment Schemes they have already or are considering setting up Qualified Investor Scheme fund structures in order to access the wide range of asset types necessary to effectively implement local authority pension fund investment strategies.

23. COLL 8.1.3 R states that the manager of the QIS *must take reasonable care to ensure that ownership of units in that scheme is recorded in the register only for a person to whom such units may be promoted under COBS 4.12.4R.*

24. COBS 4.12.4R sets out the exemptions from 4.12.3 which states that retail clients should not be sold *non-mainstream pooled investments*. There are 13 exemptions including elected professional clients (exemption 7) and certified and self-certified sophisticated investors (exemptions 8 and 9) each of which could provide a means of local authorities accessing the full range of assets offered by the pool.

25. However all the exemptions listed above include a level of uncertainty with regard to the required assessments and the potential for inconsistent application. We therefore request that FCA ensure that asset pools can provide an effective point of access for local authority pension funds, in line Government policy objectives, by listing them as an exemption in their own right.

26. This would result in local authorities being able to invest in a full range of assets via Collective Investment Schemes without having to undergo an elective process. The elective process would still be required where authorities continue to invest outside of pools or where pools do not operate Collective Investment Schemes.

Transitional issues

27. Local authorities will become retail clients on 3rd January 2018. There will be a transitional period (which in some cases will be years) before investments are switched to the pools and/or the authority successfully elects for professional status.

28. Firms and local authorities need clarity with regard to transactions made before that date as per se professional clients which could not be made after it as retail clients. FCA are therefore requested to provide reassurance that such transactions may be honoured and will not have to be terminated on 3rd January 2018.

JH 18.11.2016

**Investment, Governance and Engagement
Committee**

5 December 2016

Investment Regulations

New investment regulations and statutory guidance came into force on 1st November 2016. The purpose of the report is to update the committee on concerns raised by stakeholders on the status and operation of the new regulations.

Report

1. A number of fund authorities have questioned whether the new regulations still allow funds to investment in vehicles that are no longer referred to as an investment, for example, stock lending. Questions have also been asked about the status of the new regulations given that an Early Day Motion seeking their annulment has been tabled.
2. **Stock lending, etc** – Under the 2009 Regulations, specific references could be made to certain investment vehicles where concerns had been raised by fund authorities or the investment community. However, under the new prudential framework of the new regulations, the type of investments to be made are matters for each administering consider to determine as part of their Investment Strategy Statement having regard to statutory guidance and the requirement to take proper advice. The fact that there is no reference in the new regulations is not therefore to be taken as an indication that authorities may no longer invest in stock lending. The committee may wish to consider whether there is a need to for guidance on how funds operate in the new prudential framework.
3. The committee may wish to consider whether the statutory guidance published by DCLG is fit for purpose regarding the new prudential framework and whether a schedule of amendments should be sent to DCLG for consideration.
4. **Early Day Motions** are used by Members in the House to draw attention to a wide range of issues. Most do not envisage any Parliamentary action but they can be used to pray against statutory instruments that have been made under the negative resolution procedure. The new investment regulations were made and laid in September 2016 and came into force on 1st November 2016.
5. Almost immediately after the Westminster Hall debate on the e-petition tabled by UNISON, an Early Day Motion was tabled by the Opposition front bench on 24th October seeking annulment of the new investment regulations. Prayer motions do not offer any clues as to the grounds on which the annulment is being sought but it would be reasonable to assume that they would be similar to the concerns raised during the Westminster Hall debate about the new power

of direction, investments being made in the best interests of scheme members and the role of scheme members in the new pooling arrangements.

6. The new regulations can only be annulled by Parliament following a vote taken on a prayer debate. Whether a debate is tabled is largely in the hands of the Speaker and although there are no hard and fast rules on the criteria any decision is based on, in general terms, prayer motions are given priority. Prayer debates in the House are not uncommon, but successful ones are very rare indeed.
7. At the time of writing, the Early Day Motion had attracted 102 signatories. However, it has no effect on the status of the new regulations which came into force on 1st November. These will remain in force unless there is a successful prayer debate. In these circumstances, the 2016 Regulations would be suspended in the expectation that the Government would be ready to re-introduce them in whatever form it considers appropriate and acceptable to the House.
8. It is important to note that any action or decisions taken under the 2016 Regulations up to the point where they may be suspended will remain lawful.

Conclusion

9. There is no action for the committee to take at this stage. There may be a need at some time in the future for consideration to be given to recommending that the statutory guidance should be revised to address concerns raised by fund authorities and others, but in terms of timing, it would be best to wait until the impact of the Early Day Motion is known for certain.

Note:

A copy of the statutory guidance can be found at

<https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement>

A copy of the 2016 investment regulations can be found at

<http://www.legislation.gov.uk/search?title=&year=2016&number=946&type=uksi>

Progress on the EDM can be found at <http://www.parliament.uk/edm>.

AGENDA ITEM 7

Investment, Governance and Engagement Committee 5 December 2016

Transparent investment fees

1. The Board will be given an update on the work being undertaken to improve the transparency of investment fees
2. The paper to be considered by the Board on 6th December is shown below.

The Committee is asked to note the paper.

Scheme Advisory Board

Meeting of the Board 6th December 2016

ITEM 4 paper [D]

Investment costs – Code of Transparency

Background

1. Investment fee transparency and consistency is a target for a revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts. Transparency of investment costs is also included in the government's criteria for pooling investments.
2. In order to assist LGPS funds to better comply with the accounting standard and the pools to be able to produce transparent costs the Board is working to develop a voluntary Code of transparency for LGPS asset managers.

The Template

3. The core of the Code is a template for completion by asset managers. This template was drafted and tested with the help of Dr Chris Sier (who has worked extensively with the Dutch pension schemes in this area), West Midlands Pension Fund and the Investment Association.
4. The template was uploaded to the Board website in September and an informal consultation period was run during October, which included round-table meetings with both LGPS Fund accountants and asset managers.
5. The template has been adopted and developed by the Investment Association who using it as a building block within their new disclose code.
6. The draft template is now complete (attached as ANNEX 1) it will be circulated to LGPS asset managers and administering authorities for use from winter of this year onwards.
7. The template lists a series of broad headings for reporting costs and expenses and in its initial form will concentrate on those areas which should already be available but may not have been supplied by asset managers either proactively or in a format easily useable by LGPS funds.
8. Where possible the template will link with other industry initiatives in this area for example the (International Limited Partners Association (ILPA) private equity fee reporting template.

The Code

Scheme Advisory Board Secretariat

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Scheme Advisory Board

9. This template will form the basis of a 'Code of Transparency' to be published by the Scheme Advisory Board. It is proposed that those managers who sign up to it are listed on the Board website and able to use the Code logo on their marketing literature.
10. The Code is not designed to enable comparisons of manager costs but rather to enable individual LGPS administering authorities to access the data they need for transparent reporting. Administering authorities may continue submit their cost data to third parties (for example CEM or other similar companies) for use in comparative analysis however that would be a separate exercise.
11. The Code will be voluntary with asset managers encouraged to sign up to it to demonstrate their commitment to transparent reporting of costs. Those that do will agree to supply the information on the template in the format requested and in a timely manner. They would further agree to the data being checked by a third party to ensure they are continuing to comply with the requirements of the Code.

Future development

12. 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.
13. 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.
14. Once the code is in place the Board will need to consider how best to take forward both the development and policing roles required for the effective operation of the Code.
15. Also it is proposed that the views on the support administering authorities may wish it to receive in respect of related work (e.g. procurement of a comparative data analysis service across the scheme) should be sought.

Liaison with other industry and Government bodies

16. Discussions are also ongoing with CIPFA to ensure the data collected using the Code will continue to provide LGPS funds with the information required to meet the reporting standard.
17. As well as ongoing discussions with the IA, DWP have expressed an interest in the work and although this is very early days they wish to discuss the template with FCA for potentially wider application.

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Local Government Pension Scheme

Scheme Advisory Board

The Board is asked to approve the attached template and Code, the continuing actions set out in this report and to launch of the Code following the meeting.

Board Secretary
15th November 2016

DRAFT

Scheme Advisory Board Secretariat

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Local Government Pension Scheme Scheme Advisory Board

Annex 1

ASSET MANAGER COST COLLECTION TEMPLATE		For use with segregated portfolio management mandates						
All figures in GBP unless specified								
Asset Manager								
Portfolio name								
Period of report	Start:				End:			
Investment return	1 year	3 years	5 years	10 years	Since formation			
Gross return (% pa)								
Net return (% pa)								
Investment activity	Total	Equity	Bonds	Property	Pooled funds	Other (specify)		
Opening assets	0							
Closing assets	0							
Purchases	0							
Sales	0							
Turnover (% pa)	%	%	%	%	%	%		
Management fees	Total							
Invoiced fees (less rebates)								
VAT (if applicable)								
Payments for research								
Other charges (specify)								
Performance fees								
Total	0							
Indirect fees								
Fees paid from NAV of pooled funds								
Transaction costs	Total	Equity	Bonds	Property	Pooled funds	Derivatives	Foreign exchange	Other (specify)
Transaction taxes	0							
Broker commission	0							
Market spread cost	0							
Market impact cost	0							
Entry/exit charges	0							
Indirect transaction costs	0							
Exchange fees	0							
Other transaction costs (specify)	0							
Total	0	0	0	0	0	0	0	0
Stock lending (if applicable)								
Gross income								
Less: income shared (name recipient)								
Less: other costs								
Income retained by client	0							
Auxiliary services (if provided by manager)								
Custody charges								

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Scheme Advisory Board

Annex 2

Investment, Governance and Engagement Committee

2.00pm – 4.00pm on 5th December 2016

Transparent investment fees

Summary of consultation responses

The consultation for the Scheme Advisory Board Code included a meeting for LGPS fund accountants (21st September 2016) and for asset managers (5th October 2016).

In addition to discussion at the meetings, comments were invited via email. In total, 27 asset managers sent feedback, four of which attended the above meeting, the remainder came from smaller asset managers and those with mandates in unlisted asset classes.

There was general agreement with the principles of the code, and a view that the template is a good starting point for improving transparency across the LGPS funds.

Potential issues around reporting under some of the headings.

Several respondents pointed out potential issues with transaction costs reporting based on bid/offer spreads varying according to the type of fixed income securities.

There were also comments on clarifying definitions and limitations around market impact for the fixed income market.

There were questions regarding the Code of Transparency and requests for further detail on point 11 - independent data checking and how this would work in practice.

Performance return and transaction fee calculation definitions differ slightly from those specified on the template for some managers. In this case they would need to change their standard reporting output to comply. The template has been designed to comply with MiFIDII.

Additionally, in a couple of cases, asset managers noted that currently their systems did not allow for reporting of all information, but that they were implementing new systems to allow for more comprehensive reporting in 2017.

A number of asset managers confirmed that market impact and market spread were not currently reportable, but moving were towards reportability of 'broker commission', 'market spread cost', 'market impact cost' – these would be estimates in many cases and rely on substantial data collection.

The Fund manager template was subject to some interpretation, and fees paid from the Net Assets NAV of pooled funds were claimed to be unavailable, along with exchange fees. There were also questions regarding which transactions charges should be given priority.

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Scheme Advisory Board

For pooled funds, completing the Fund manager tab, there were questions around the reporting levels, for example, would the fund transactions be reportable (i.e. high for passive mandates) compared with LGPS fund (client) dealing. This should be clarified in the notes.

A major issue, which was emphasised during the asset manager meeting was regarding the use of data and confidentiality. This is particularly relevant for commercially confidential information and asset managers would seek to put in place an NDA before disclosure took place.

Questions around other asset classes:

Several asset managers volunteered to assist/consult on the development of a template for unlisted (private) markets.

Among the asset classes (mandate types) not fitting the template was currency overlay programmes. These mandates utilise derivative instruments and sit apart from but are related to the underlying asset pool.

A further, non-listed asset manager response included proposing a regulatory definition of FX transaction costs.

A possible solution for include property was suggested. This was the potential to adopt the disclosure recommended by The Association of Real Estate Funds (AREF) in their guidance on property funds.

Completed template proforma

A number of LGPS Funds/asset managers (four) completed the proforma and returned a completed spreadsheet. These returns have not been audited or tested.

AGENDA ITEM 8

Investment, Governance and Engagement Committee 5 December 2016

Law Commission's call for evidence on social investment

1. The purpose of the report is to inform the committee about the call for evidence from the Law Commission on pension funds and social investment.
2. The call for evidence was published on 7 November 2016 and invited responses by 15 December 2016.
3. The report defined "social investment" as an investment which combines financial and social objectives which can "do well and good at the same time".
4. The report invites responses to various questions, all of which relate exclusively to defined contribution pension schemes. The main recommendation of the report is to offer members of defined contribution schemes the option of investing their contributions in vehicles that have a social impact.
5. The call for evidence therefore has no direct relevance to the LGPS and there is no obvious reason why the committee should recommend that the SAB should send a response. However, the committee may wish to consider whether there would be any merit in submitting a general response about social investment and its relevance in a funded defined benefit scheme like the LGPS.
6. A copy of the call for evidence can be found at http://www.lawcom.gov.uk/wp-content/uploads/2016/11/pension_funds_call_for_evidence_Nov2016.pdf

