

London Borough of Croydon Pension Fund (“the Fund”)

Consultation response: Local Government Pension Scheme (England and Wales): Fit for the future

Question 1

Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

- **Somewhat Disagree**
- **We agree** that all pools should be required to meet a **consistent set of minimum standards**. However, there are elements of the proposed standards that we disagree with.
- **We agree** that Administering Authorities (**AA's**) **should remain responsible for setting an investment strategy** for their Fund. **However**, the responsibility for meeting liabilities will remain with the Fund and its employers and it's important that we retain the ability to set investment strategy to retain accountability to our employers and members. We believe **AAs should be able to set investment strategy at a more granular level than is proposed in the consultation template** (see question 4).
- **We disagree** with the proposal that AAs should be required to take principal investment strategy advice from the pool (see question 5).
- **We agree** with the proposal that **pools** are established as investment management companies and are **FCA authorised**.
- **We agree that AAs transfer all listed assets to the pool**. However, we **would not support the need to transfer passively managed assets from an ‘under pooled management’ arrangement to being managed directly by the pools** under the current timeframe (see question 7).
- **We strongly disagree that legacy private market assets are transferred to the pool** (see question 8).
- **We somewhat agree that pools should develop the capability to carry out due diligence on local investments** and to manage such investments (see question 16).

Question 2

Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

- **Somewhat disagree.**
- **We agree with the high-level investment objectives that are retained by the AA** at a minimum. We believe it is important for responsibility to remain with the AA to factor in the bespoke nature of each scheme's membership and financial liabilities.

- **Regarding the optionality of setting of a strategic asset allocation, the administering authority would prefer to set this itself.** Whilst the consultation labels the pools as ‘best placed’, we consider there to be a robust process already in place which has delivered positive results for the outcomes of the investments. The proposed template doesn’t provide sufficient granularity for the Fund to take into consideration the Fund-specific circumstances.
- Pools should be required to deliver the investment strategy of the Fund without a Fund materially compromising on its investment strategy.
- In terms of implementation activity that is listed out for delegation to the pool, we are comfortable with the position for investment stewardship (which is consistent with the Fund’s current Responsible Investment Policy).
- We are comfortable with the position for manager selection, which is generally consistent with the current (and initial) objectives for pooling. We would consider it **important that any changes to the approach do not reduce the level of scrutiny and transparency** in relation to the pool and managers in question, and that the decision-making process is not concentrated within a small number of people.
- **We have concerns with the position for cashflow management.** A significant part of the role for this is the management of cashflows with respect to the private market assets. **To transfer the administration of these would create an additional layer of complexity**, noting that the pool would need to either directly access the Fund bank account or still require action from the AA to provide liquidity to any intermediary fund. Both of these approaches would concern us.

Question 3

Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority’s fiduciary duty?

- The question is predominantly legal in nature and we would require legal input to be able to answer this question. The timescales of the consultation do not allow for this and it is also a poor use of resources for each individual Administering Authority to be looking into the same legal question separately.

Question 4

What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

- The proposed template **does not provide sufficient granularity for an AA to retain accountability** for the outcome of their investment strategy, or capture Fund-specific circumstances. The Fund needs to retain sufficient accountability to **employers**, who will ultimately be required to increase contributions should there be poor outcomes.
- **At a minimum, AAs should be able to reflect individual preferences with regards to:**

- **active / passive management**
 - desire to **manage specific liability risks** (e.g. through the use of a risk management framework) ○ **cashflow requirements**
 - **regional equity allocations** (e.g. Developed / Emerging Market equities) and
 - desire to **incorporate specific ESG/Impact objectives** such as Net Zero objectives and specific allocations to Natural Capital or Climate Solutions.
- We also believe that the buckets proposed are too vague. Fixed income is a very broad universe, ranging from low-risk government bonds (fixed and inflation linked) to sub-investment grade Multi Asset Credit mandates. Alternatives too is a very broad classification, which we believe should be broken down to allow AAs to provide a more granular asset allocation. Pools combined with their AAs are best placed to decide an appropriate template for their circumstances.

Question 5

Do you agree that the pool should provide principal investment advice on the investment strategies of its partner AAs?

- **Disagree**
- We consider the AA to currently have a robust approach to decision making which includes a framework on the receipt of investment advice. Whilst it is not clear to us what the marginal benefits of this transition are, we are not opposed to the principle of taking investment advice from the pool, assuming the associated conflicts of interest are carefully considered. However, we believe the Fund should have the ability to choose who it receives investment advice from, as per the current arrangements.
- We have pressing concerns in relation to the readiness of our pool to build out the resources required to adequately deliver this, especially in the timescales imposed (further details in Question 10).

Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

- **Yes**
- We believe it is essential to have adequate transparency and scrutiny in relation to any advice provided by the pool. It is important to the AA that advice and/or delegated decisions are able to be challenged, and that the flexibility to make use of third parties to support this are warranted.

Question 6

Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

- **Strongly agree**
- **Under the proposals we would see FCA authorisation as a pre-requisite.**

- We are already part of an FCA authorised pool, so have no other comments to add on this question.

Question 7

Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?

- **Somewhat Disagree**
- 100% of the Fund's liquid asset mandates are already pooled / due to be pooled imminently.
- We have a passive equity mandate with an exclusion on tobacco; managed for a very competitive fee by a large manager with specialist index-tracking capabilities; as such we have already been able to access especially low fee rates. This is categorised as 'under pooled management'.
- **We would want to see further substantial evidence that pools are able to manage passive assets to as high a standard and provide as much value for money as the current approach** before agreeing to transfer this to a different arrangement.

Question 8

Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

- **Strongly Disagree**
- **We struggle to see the marginal benefits** of the pool taking on our legacy illiquid investments, of which we have as many as 34 across infrastructure and private equity. We expect the **administrative burden would be significant**, including in relation to cashflow management (as outlined in question 2).
- We strongly believe the best course of action for all concerned, for the legacy investments, would be to **allow them to naturally wind down as they mature and pay proceeds back to the Fund**. Pool resources should be used to build up the capabilities for managing future commitments to illiquid investments.

Question 9

What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

- We believe that the resources and expertise to develop **would be significant if the use of third-party managers is limited**. The management and monitoring of direct investments will require a **significant recruitment drive**, including for those with competitive salaries, which would increase the associated costs of pooling with the prospect of inferior outcomes.

- This is especially pertinent for us because **the Fund's existing private market investments have delivered markedly superior outcomes** for investment returns and the funding position of the Fund.

Question 10

Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

- In isolation, the main proposal that we could envisage being feasible by March 2026 is the pooling of the remaining legacy liquid assets.
- However, we have significant **concerns around the feasibility** of the bulk review and expansion of the pool offerings, the build-up of the pool's capabilities to provide regulated advice and management of a huge uptick in administrative responsibilities. All of this will necessitate a material increase in **resourcing** and we believe the problems will be compounded by these undertakings being simultaneous.

Question 11

What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

- We believe that **there is scope for increased collaboration**, and would support an ambition to facilitate this where possible. Funds could feed into a central resource to share experiences of best practice and expertise.
- However, we would **caution against excessive standardisation** and shoehorning processes together due to Fund-specific differences and the potential for diseconomies of scale.

Question 12

What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

- **This collaboration also exists to a significant extent**, both through the structural models and the general support networks for Officers, subcommittees and working groups.
- **These will need to be relied upon further to navigate the uncertainties of the consultation proposals and the new administrative complexities.**
- Given that these proposals entail an increase role of the pools, **we would be open to more explicit pool-wide collaboration and training initiatives.**

- We also believe that collaboration will be important to navigate the matter of **local investments**, especially from a London perspective due to higher geographic proximity between Funds than in other parts of the country.

Question 13

What are your views on the appropriate definition of 'local investment' for reporting purposes?

- **We support clarity** on the definition of the term and are broadly supportive of the one offered.
- **We would welcome additional clarity from MHCLG on the context for London-based schemes** and whether there is a distinction between the borough- and city-wide level.

Question 14

Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

- **Strongly Agree**
- **We would welcome this support and joint-up approach** in identifying these opportunities as required.

Question 15

Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

- **Strongly Agree**
- **We are comfortable with this**, which is consistent with the procedure for allocations to any other asset class.

Question 16

Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

- **Somewhat Disagree**
- We are supportive of this in principle, but have **concerns about resourcing constraints** to achieve this.
- We note that a **large volume of opportunities** could be presented by partner funds for due diligence at a given time, because of the typical smaller scale of local investments.
- We note that robust due diligence is another component of regulated advice which **requires significant in-house tools and capabilities**.

- We would also re-emphasise that the inherent **conflicts of interest here would need to be carefully considered and managed.**

Question 17

Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

- **Somewhat Agree**
- We are supportive of this ambition, subject to the clarifications outlined.
- **We would welcome a recognition that the granularity and timescales of reporting will differ by investment and remains to be seen until the investment in opportunities commence.**

Question 18

Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

- **Strong Agree**
- We were supportive of the draft recommendations published in 2021 and welcome the expansion and finalisation of these.
- We consider the Fund to be well-governed, but believe verification and accountability of this is important to ensure a continued delivery to high standards, which will be important as the landscape continues to evolve following the Pensions Review.
- One thing that isn't clear from the proposals is from what date schemes are expected to comply with the requirements outlined. We would be uncomfortable if the timescale was excessively narrow, noting that the AA is already / will be working through a number of high-profile projects, such as the actuarial valuation, General Code and Pension Dashboard, as well as the implications of this consultation.

Question 19

Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

- **Strongly Agree**
- We place important on the conflicts of interest that the Fund is exposed to, and as previously outlined we think conflicts are going to grow with respect to the greater role that will be played by the pools going forwards. We think the nuances of local investment may give rise to greater conflicts, as well as emerging matter of funding surpluses.
- The Fund already has a conflicts of interest policy.
- Clear guidance for schemes in the publishing of this strategy is going to be important.

Question 20

Do you agree with the proposals regarding the appointment of a senior LGPS officer?

- **Strongly Agree**
- We believe this is appropriate for effective scheme governance. The role of the Fund's Officers is wide-ranging and requires the full attention of the role, rather than being fragmented.

Question 21

Do you agree that administering authorities should be required to prepare and publish an administration strategy?

- **Strong Agree**
- We would welcome a centralised template which covers the core areas whilst allowing for recognition of scheme-specific differences.

Question 22

Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

- **Strongly Agree**
- We would welcome further guidance to improve the conciseness and accessibility to members of the annual reports.

Question 23

Do you agree with the proposals regarding biennial independent governance reviews?

- **Somewhat Disagree**
- We are supportive of the undertaking of an independent review to ensure accountability around best practice and high governance standards.
- However, we believe this should be a triennial exercise which is the typical cycle for workstreams that are less frequent than annual. We think the biennial requirement will have a knock-on impact for wider workflow predictability and management, and therefore efficiencies.
- We understand that a triennial timescale would be consistent with the closest equivalent to this exercise in the private sector.

What are your views on the format and assessment criteria?

- We have questions around whether the peer support offer being developed by the SAB will come with associated costs and whether it will be mandatory for schemes.
- We note that the reviews could require significant capacity (in supporting all national schemes every two years), and believe the value of independent, specialist advice should not be understated.

Question 24

Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

- **Strongly Agree**
- The Fund already takes the necessary action and training to ensure this, but we believe it is sensible to make this a statutory requirement.
- We would request that there are reasonable timescales involved in relation to new committee members, noting that there is a transition period and it would not be practical to make big alterations to existing training strategies on a frequent basis.

Question 25

Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

- **Strongly Agree**
- This will be beneficial for record keeping and we believe it will promote accountability.
- We would welcome support on the level of detail that this would entail.

Question 26

What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

- We do not object to this proposal, subject to associated costs. Any advisors should be experts across the scope of matters that the pension committee deals with, in order to adequately add value to warrant the change.
- We would welcome guidance on the appointment process and how conflicts of interest should be managed.
- However, we have previously outlined (see question 5) that oversight requirements will increase off the back of changes to the pooling arrangement, for which we would still require third-party additional input, and we would clarify that we do not envisage an independent advisor alone being sufficient to cover this.

Question 27

Do you agree that pool company boards should include one or two shareholder representatives?

- **Somewhat Agree**
- As previously outlined, we believe it is important for scrutiny and accountability to be upheld as more responsibilities are delegated to the pools.
- We can see board representation as one way to achieve this, though we have concerns over whether this will be diluted by how many partners funds there are, and would welcome guidance on how representation will be decided and how meaningful this will be in the decision-making process.

Question 28

What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

- The AA is a direct representative for members, as such they are the best mouthpieces for members' views and interests. As per question 27, adequate representative will be one way to ensure that these continue to be taken into account.

Question 29

Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

- **Strongly Agree**
- The AA would like to continue to see:
 - Net of fees performance over the longer-term horizons, including since inception
 - Quarterly benchmarking of risk and return outcomes relative to peer group asset classes
 - Performance commentary

Question 30

Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so, please provide relevant data or evidence.

- We believe the new role of 'local investments' could be a sensitive issue, noting the more immediate potential impacts on people's lives including those from disadvantaged groups.
- This adds to the importance of clarity over the definition as previously outlined, and providing guidance on the context for London schemes.

- The fair allocation of investments in different communities needs to be carefully considered and managed.

For and on behalf of the London Borough of Croydon Pension Fund Committee

December 2024