Appendix 5

Draft Response to Pooling Criteria

To: LGPSReform@communities.gsi.gov.uk

Dear Sirs

Investment Reform Criteria and Guidance

The criteria issued last November by the Department of Communities and Local Government requires local authorities to respond by 19th February 2016 including a commitment to pooling and a description of progress towards formalising arrangements with other authorities.

Haringey's progress towards Pooling

Haringey Council Pension Fund has made considerable progress towards pooling a majority of our assets working with the London CIV. We are a shareholder in the London CIV and for the last two years have contributed to the CIV's establishment costs.

Currently 75% of our assets are passively managed equities and index linked gilts. The CIV will offer from early 2016 a facility for passively managed equities and we have agreed in principle to transfer our developed market equities (50% of the fund) to the CIV. We anticipate that the CIV will soon offer a facility for passive index linked gilts that we are likely to utilise. Thus we have a reasonable expectation, based on our current investment policy, that 65% of our investments will be invested through the London CIV by the end of 2016.

Delivery of Cost Savings through Pooling

Parts A and C of the criteria focus on the ability of pooled funds to reduce investment fees and other costs. During 2015, Haringey renegotiated our passive investment management fees. The outcome is that we achieved fee levels for equities that are broadly consistent with those available from the London CIV. Moving our developed market equities is anticipated to deliver £113,000 of fee annual savings through favourable tax treatment and minimal transition costs, with the assets remaining with the current fund manager.

When considering switching passive emerging market equities to the London CIV, we identified that due to less favourable tax treatment, this class of assets will incur additional annual costs of £98,000 and one off transition costs of at least £350,000. For this reason we have decided for the moment not to transfer emerging market equities to the CIV.

We would appreciate confirmation from the Secretary of State that our rational for not transferring this class of investment (higher costs with no scope for performance improvement) is consistent with criteria C, reduced cost and value for money.

Pooling of Actively Managed Investments

Haringey Pension Fund has 25% of its assets managed actively in property, multi sector credit, private equity and infrastructure debt. We are currently considering additional investments in renewable energy and long lease property. We recognise that working in tandem with other pension schemes will be beneficial for these asset classes. Although our main pooled provider will be the London CIV, we anticipate that other pools will offer different opportunities and we intend for the moment to be flexible in selecting partners for the remainder of our assets.

Pooling Timetable and Achieving Optimum Arrangements

The Government has asked that final proposals for pooling are submitted by 15 July 2016. Should Haringey simply opt for using a single pooled provider this could potentially be an achievable timetable, although it will depend on the London CIV's ability to provide considerable detail to support a group response, a point on which I am sure they will respond.

As mentioned above, Haringey considers there to be potential merits in a multi pooled solution. Local authorities across England and Wales are developing plans and inviting participation from other authorities. Haringey best interests are served by keeping a watching brief on these combinations for our actively managed assets and discussing opportunities with the various pools. However, the details of each pool's offering e.g. mandates, fund managers, performance targets, fees etc are not going to be available by summer 2016. Therefore carrying out an evaluation of the alternative pools for our actively managed assets is not going to be possible by July 2016. Unless that the Government is prepared to extend the deadline for fully evaluated pooling proposal, Haringey and other funds will be forced into a single pool probably regional solution that may be sub-optimal in delivering savings and performance.

Investment in Infrastructure

The Government has made reference to the tiny percentage of LGPS funds invested in infrastructure. Haringey has committed approximately 5% of our fund to UK infrastructure debt, with funds expected to be drawn down within 12-24 months. Initially investments are a road improvement scheme and student accommodation. We are currently searching for a manager for a renewable energy infrastructure mandate of a similar size, bringing our infrastructure allocation to 10%, which compares favourably in international comparisons. We recognise the potential cost savings from LGPS collaboration however would remind the Government of our responsibilities to manage risks when selecting investments and that we must ensure that the returns and risks are superior or at least comparable with other opportunities and the requirements for diversification.

I will be happy to discuss Haringey's response.

Yours sincerely

Councillor Clare Bull

Chair, LB Haringey Pensions Committee