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Dear Ms Clay

Consultation on Draft Statutory Guidance on Asset Pooling in the Local Government Pension Scheme

Thank you for the opportunity to comment on this draft guidance. This response has been considered and agreed by a meeting of the Teesside Pension Fund Committee on 13th March 2019, and is a response on behalf of Middlesbrough Borough Council acting in its capacity as administering authority for the Teesside Pension Fund.

In general the Council welcomes the guidance, which provides some clarity on how investment pooling within the Local Government Pension Scheme (LGPS) should operate. The approach set out is generally consistent with the approach to pooling that has been adopted by the partner funds within the Border to Coast Pensions Partnership.

There are some specific points the Council would like to make in connection with the views set out in the draft guidance in relation to passive v active management, whether administering authorities have any fiduciary duty to beneficiaries who are not part of their fund, and the extent to which reporting requirements should be detailed in the guidance. These are set out in the table on the following page.

Please contact me if you have any questions or wish to discuss this response.

Yours sincerely

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| Paragraph in draft guidance | Comment |
|--|--|
| <p><i>Regular review of active and passive management</i> 3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.</p> | <p>The requirement to consider moving from active to passive management, but not vice versa, indicates an unexplained bias towards passive management. Although indices tracked in passive investing are useful to benchmark performance of active managers, and there are times within investment cycles when active management tends to be more or less beneficial compared to passive, the Council does not agree with the inherent assumption here that passive management should be the default investment style. The Teesside Pension Fund has a long history of delivering strong active management performance above passive indices and is looking forward to continuing to do this through its Pool company.</p> |
| <p>4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.</p> | <p>The Council agrees that administering authorities should take a long-term view in relation to the costs/benefits of pooling, however there is a general issue in regard to how Administering Authorities can possibly “take account of the benefits across the Pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers”. The legal fiduciary duty each Administering Authority has is towards its own beneficiaries, not to those of the “scheme as a whole”.</p> |
| <p><i>Section 8 ‘ Reporting’</i></p> | <p>Detailed information on reporting requirements should not be included within the draft guidance. It is enough to state that CIPFA guidance should be followed – adding further detail of that guidance just means the overall investment pooling guidance could need amending every time the CIPFA guidance changes in future.</p> |