Victoria Edwards
Department for Communities and Local Government
Zone 5/F5
Eland House
Bressenden Place
London
SW1E 5DU

11th July 2014

Dear Vickie

Local Government Pension Scheme

Please find attached to this letter the LGA's response to the consultation:-

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies.

Any questions should be referred to myself or Liam Robson.

Yours sincerely

Jeff Houston
Head of Pensions

Mobile: 07786 681 936 Office: 020 71877346
Email jeff.houston@local.gov.uk

Local Government Association (LGA)

Response to the consultation: Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

1. Summary

1.1 This paper sets out the LGA's response to the questions posed in the above consultation issued by the Department of Communities and Local Government (DCLG) in respect of the Local Government Pension Scheme (LGPS). In summary the responses are as follows:-

1.2 The consultation asks in relation to **Common Investment Vehicles (CIVs):**

1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.
2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?
3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?
4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

LGA response

1. The LGA believes that there are benefits to collective investment arrangements but that CIVs are only one form of such arrangement and others, for example co-investment in infrastructure projects may prove equally if not more beneficial (see section 4).
2. The LGA agrees that asset allocation is best left local but would like to see a clearer definition of what that means and some flexibility around administering authorities' ability to delegate that function (see section 5).
3. The LGA considers that it is for Government to set the objectives of collective investment, if necessary in regulation, and for the sector to then determine the style and scope of such arrangements (see section 6).
4. The LGA believes that whatever collective investment arrangements are created the opportunity should be taken to encourage a greater degree of internal active management and set measurable governance objectives, if necessary in regulation and/or guidance (see section 7).

1.3 And in relation to **Passive Management:-**

1. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above (see section 8) offers best value for taxpayers, Scheme members and employers?

LGA response

1. The LGA does not believe there is a good case for across the board imposition of pure passive management. However it does consider that there is a place for enhanced passive and/or targeted increases in pure passive and would therefore support a 'comply or explain' approach but with the backing of some form of regulatory conditions for permitting continued use of unlimited active management (see section 9).

Summary of consultation

2.1 The consultation runs until 11th July 2014 and proposes:

- Establishing Common Investment Vehicles (CIVs) to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- It does not include proposals to pursue fund mergers at this time.

2.2 The package of proposals is estimated to save up to £660 million per annum in investment costs.

Collective Investment Vehicles (CIVs)

3.1 The consultation argues that the use of CIVs would provide access to economies of scale in investment management and related services (e.g. custody and foreign exchange). Also LGPS funds would be able to take advantage of direct investment in asset classes requiring scale (e.g. infrastructure) and eliminate the need for investment via costly 'fund of fund' vehicles. The paper estimates savings of up to £240 million per annum.

3.2 The consultation asks:

1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.
2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?
3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?
4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

LGA response on Collective Investment Vehicles

4. The LGA believes that there are benefits to collective investment arrangements but that CIVs are only one form of such arrangement and others may prove equally if not more beneficial.

4.1 The advantage of the scale that the fifth largest funded defined benefit pension scheme in the world could secure in terms of value in investment fees and direct access to markets is not disputed and should be encouraged. However CIVs as described in the consultation are not the only option open to LGPS funds. The LGA strongly believes that all options should be explored for potential cost/return benefits.

Co-investment

4.2 The Hymans Robertson's report published with the consultation rightly highlights the need to avoid costly 'fund of fund' vehicles for alternative investments such as infrastructure, However using co-investment vehicles can achieve the same objectives while avoiding the need to create CIVs. Agreements between LGPS funds to invest on a project by project basis would provide the scale of capital needed for direct investment without the need for overarching and potentially complex governance structures.

4.3 The M8 motorway project is one recent example of a pension fund entering into a co-investment arrangement. The project is being financed by a £350 million loan provided jointly by the European Investment Bank, Allianz and the GEC Pension Fund. A further example on a much different scale can be found in Colombia where four pension funds have agreed to co invest US$12.7 billion in road infrastructure projects over the next seven years.

Delegated investment

4.4 Another example of collaboration is delegated investment. Administering authorities can use the powers in the Local Government Act 1972 section 101(1)(b) for their functions to be discharged by another local authority. Using this power some or all of one administering authority's investment function could be performed by a separate administering authority. There is no requirement to create a complex CIV structure for this to occur.

4.5 So, for example, authority A could delegate the selection of its investment managers to authority B thereby enabling joint mandates. This could be particularly useful for specific types of alternatives where one authority could specialise in selecting and managing an alternative asset on behalf of a group. Such arrangements could potentially lead to lower fees, direct access to markets and reduced manager churn.

4.6 Another potential for these arrangements would be for the in house investment team of one authority to act for others thereby providing the cost advantages of in house investment and avoiding the need for external manager selection. Although registration with the Financial Conduct Authority (FCA) would not be legally necessary for the authority which has been delegated to, it may be advisable in order to provide a level of assurance of good practice and risk management.

Collaborative investment

4.7 Essentially collaborative investment is an arrangement whereby the assets of more than one pension fund are invested jointly or 'pooled'. The exact nature of the pooling arrangement will depend on the structure of arrangement chosen, which in turn will depend on its objectives and the pre-existing legal strictures on the investors. CIVs would be included in this definition but so would other arrangements.

4.8 The Hymans Robertson report sets out the legal and tax framework for five types of CIV (a Unit Trust (UT), Open Ended Investment Company (OEIC), Limited Partnership (LP), Authorised Contractual Scheme (ACS) and Unit Linked Life Fund) and looks at the pros and cons of each. In all cases there is an assumption that regulation is required because the CIV operator is making decisions on behalf of the investors.

4.9 This is true for the CIV London Councils is developing for the 33 councils who act as LGPS scheme managers in London. This initiative makes use of the existing London Councils governance structure as the foundation for a wholly owned company acting as an Authorised Contractual Scheme (ACS) CIV.

4.10 It is estimated that the London CIV will save between £21 million and £112 million per annum in investment costs depending on the extent of participation, with the higher figure requiring almost all of the £28 billion in assets being invested via the CIV.

4.11 However there are other models of collaborative investment which make greater use of existing local authority legislation land therefore avoid the complication and cost of registration.

The power to discharge functions

4.12 Section 101(5) of the Local Government Act 1972 allows for authorities to jointly discharge their functions via a joint committee. It is this power that London Councils are taking some advantage of in order to provide oversight of their CIV.

4.13 The essential elements of an LGPS collaborative investment arrangement are:

- The local pensions committees by which the councils currently discharge their LGPS scheme manager function.
- A joint committee to provide oversight and governance of the arrangement.
- The pooled fund itself: one or more funds in which the assets of the investors are pooled. These could range from a single global equity tracker fund to a whole range of funds including for example corporate bonds, FTSE 100 smart passive equity, UK property, emerging markets active equity and UK infrastructure.
- An organisation (legal entity) to operate the arrangement, employ the staff, procure support services for example custodian, actuarial, legal and FX services, own the underlying assets (if a unitised approach is chosen) and enter into contracts with the investment managers of the CIV funds.

4.14 The exact nature of the arrangement (and therefore its potential benefits) depends on the relationship between the local committees, joint committee and the legal entity.

4.15 For example in the London CIV the local committees continue to make all asset allocation decisions by choosing which of the CIVs funds to use (or not - as they are not committed to use the CIV at all). The joint committee appoints the board of a company jointly owned by the local authorities which acts as the legal entity. The company (which in the London CIV is regulated by the FCA) appoints external managers for the funds and procures all support services.

4.16 Other models are available - for example the local committees could continue to make strategic investment decisions (the growth and matching assets mix) with the joint committee constructing the different funds and making asset allocation decisions across them (e.g. the mix of global/emerging/UK growth funds together with the active/passive balance).

4.17 Alternatively the legal entity may choose to provide in house investment management rather than appoint external managers, in house management being something which a small number of northern authorities already perform very well and which can provide the potential returns of active management with passive like fee levels. This could reduce costs even further than those being proposed in London.

The Joint Committee

4.18 There are existing examples of joint committees that could be used as the basis for collaborative arrangements. For example SIGOMA (Special Interest Group of Metropolitan Authorities) contains 5 of the largest administering authorities.

4.19 These funds in total account for over £40 billion in assets (in comparison the 33 LGPS funds who are covered by the London CIV total £28 billion in assets). A sub-committee of SIGOMA which includes at least representatives of these councils could act as the joint committee for a collaborative investment arrangement.

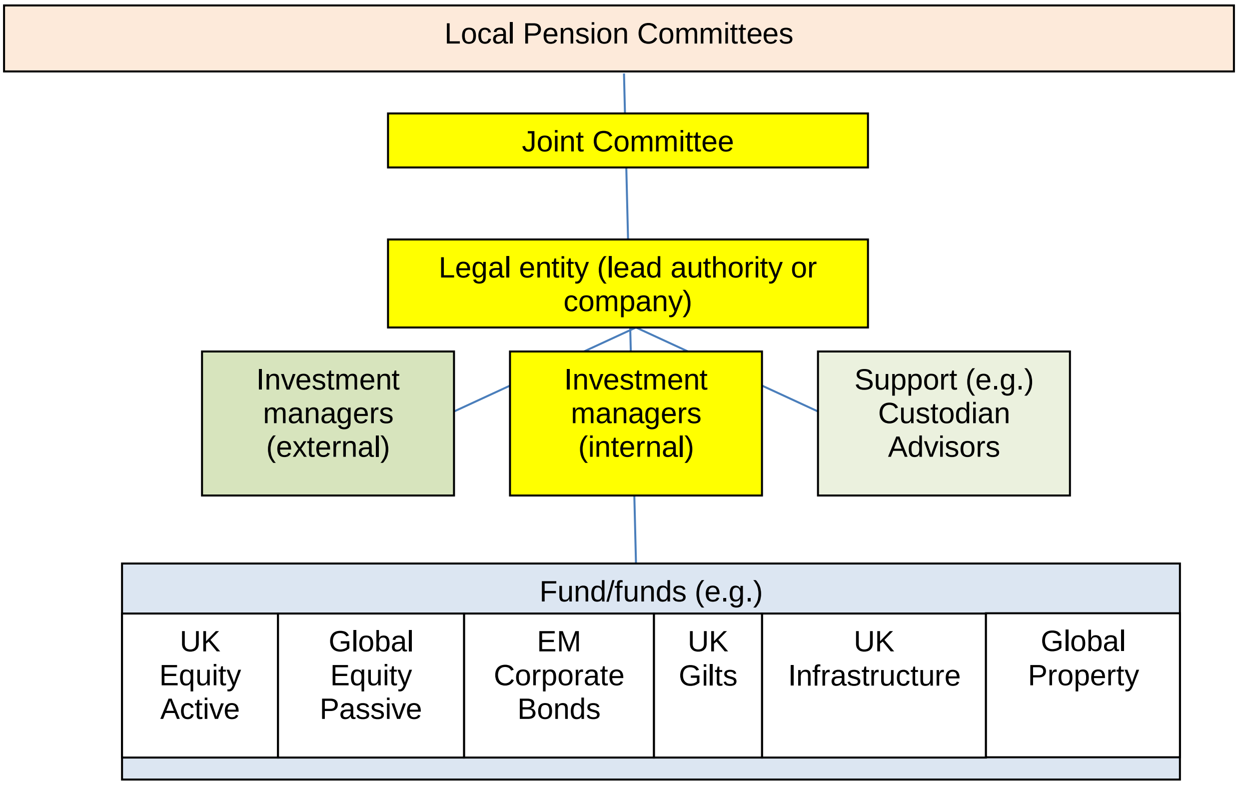
4.20 Alternatively a sub-committee of the County Councils Network whose membership includes 35 LGPS scheme managers with total assets of over £75 billion could act as the joint committee.

4.21 The above are merely examples of pre-existing structures and do not constitute a proposal by the LGA for such structures to be created. Furthermore there is nothing to stop any number of administering authorities choosing to create a joint committee for the purpose of running a collaborative investment arrangement. These authorities would not need to be geographically or structurally similar, indeed a joint committee of those funds with similar investment strategies could be far more appropriate.

The legal entity
4.22 A joint committee has no legal entity therefore one will need to be found to operate the fund or funds. The option which is both the simplest and least costly to implement uses section 113 of the Local Government Act 1972 or the Goods and Services Act 1970 to nominate a 'lead authority' to fulfil that role. If the concept of 'lead authority' is not desired then another option would be to create a local authority owned company which could be either limited by shares or by guarantee. (This is the route the London CIV has chosen to employ).

4.23 If the company route is chosen the authorities would enter into a contract with it to provide services to support the joint function. The contract can be entered into without a procurement process having to take place as the company would be a legally separate but substantively ‘in-house’ provider. This exemption (the Teckal exemption) applies when a contracting authority exercises control over a wholly-owned company that is similar to the control it has over its own departments (“the control test”); and the company carries out the essential part of its activities for that authority.

Example structure of a Collaborative Investment arrangement



Decisions
4.24 The legal entity will require registration with the FCA only if it is deemed to be making decisions on behalf of the investors. This is true even if the legal entity is a lead authority or is owned by the authorities. If however all material decisions are taken at the local or joint committee level then registration is not required as the investors themselves are responsible for those decisions.

4.25 The point at which decisions are made is a vital element of any improvements in governance. At the local committee level the potential weaknesses are lack of resources and overreliance on advisors, at the operator level the weakness is lack of accountability. Joint committees can provide resource, a depth and continuity of experience and a direct accountability back to local committees and therefore local taxpayers.

Tax implications
4.26 As set out in the Hymans Robertson report there are a variety of tax implications to be considered depending on the ownership of assets, distribution of income and exemptions which may be available due to the nature of the participant investors. If ownership passes to the legal entity then specialist advice would be needed in order to maximise the tax efficiency of whichever structure is selected (e.g. the ACS route selected by London). However if ownership of the assets remains with the authorities then existing tax arrangements would continue to apply.

Pension boards
4.27 The Public Service Pensions Act 2013 requires that regulations are enacted which require the establishment of a pension board for each scheme manager (administering authority) in order to ensure compliance with legislation and guidance. It is understood that LGPS regulations may allow for joint boards where the scheme manager function is wholly or mainly delivered via a joint committee. An arrangement in which most scheme manager decisions have been delegated to the joint committee would meet that requirement and therefore avoid the need to create and maintain multiple boards.

5. The LGA agrees that asset allocation is best left to local determination but would like to see a clearer definition of what that means and some flexibility around administering authorities' ability to delegate that function.

5.1 The consultation states that asset allocation decisions should be left with administering authorities but does not define the extent of those decisions. Furthermore it does not seem to recognise that the shift of such decisions could, or in some cases should, occur for the benefit of both the local fund and the scheme as a whole.

Level of asset allocation decisions
5.2 There are two levels of asset allocation with which local pension committees deal with, strategic and tactical. Beyond these investment managers themselves especially those running Diversified Growth Funds (DGFs) will be making asset allocation decisions on a regular basis. Indeed where an LGPS fund invests any significant amount into a DGF it is effectively divesting itself of such decisions in relation to that proportion of its fund.

Strategic asset allocation sets the proportions for the major asset classes (stocks, fixed income, cash equivalents and alternatives) in order to best match liabilities and then rebalances periodically as changes in values skew the proportions over time.

Tactical asset allocation sets ranges for the asset classes giving the managers flexibility to match market conditions at any time.

5.3 However, many pension committees take both strategic and tactical allocations decisions within the major asset classes, for example setting proportions or ranges for UK equities or global bonds. This level of allocation goes beyond a view on liability matching and seeks to determine the best route for growth (or defence) within the class itself and in doing so requires a greater degree of sophistication and expertise. The consultation is not clear if such decisions are included in those which should be left with administering authorities or not.

Voluntary delegation of asset allocation

5.4 There may be circumstances when funds may see a benefit in voluntarily delegating asset allocations decisions at some level. For example a joint committee structure as described in paragraphs 4.18 to 4.21 could be used to set allocations within the asset classes if by doing so it could benefit from a better resourced and wider pool of in house expertise and external advice.

Asset allocation and performance

5.5 The consultation seeks ways to improve the value received by the LGPS on investments and in doing so concentrates on the cost element of cost/return. However it is equally valid to focus on the return element and here 'asset allocation is king'.

5.6 The academic article "The Equal Importance of Asset Allocation and Active Management"[1] refined the conclusion from the 1986 article "Determinants of Portfolio Performance," [2] that a fund's asset allocation explained 93.6% of the average fund's return variation over time by setting out the argument that in fact asset allocation decisions were responsible for 100% of the return and 50% of the variation (the other 50% being derived from active management decisions).

5.7 That being the case the real driver of return is not dependant on the active/passive split but on the asset allocation itself. If therefore we are seeking to address the aggregate return of the LGPS should we look more closely at the correlation between asset allocation decisions and performance? The table[3] below compares the asset allocations (in four classes of assets) of the upper and lower quartile of performing funds (over five years) with each other and with the average allocation across funds.

Quartile	Equities	Bonds	Property	Alternatives	Other
Top	67.3%	20.4%	4.2%	3.5%	4.5%
Average	61.8%	19.4%	6.9%	6.3%	5.5%
Bottom	50.9%	19.7%	8.1%	10.7%	10.6%

[1] Ibbotson Associates Thomas M. Idzorek, James Xiong, Roger Ibbotson, and Peng Chen, "The Equal Importance of Asset Allocation and Active Management" published in the Financial Analysts Journal
[2] "Determinants of Portfolio Performance," by Gary Brinson, Randolph Hood, and Gilbert Beebower (BHB)
[3] Based on State Street Investment Analytics (SSIA) Local Authority Universe, England and Wales data

5.8 Some of these differences may be explained by recent decisions to better match the liabilities of the funds but the question as to whether some may just be getting it wrong remains. If this is proved to be the case then leaving such decisions with the authority may not be a sensible course of action. Could there be a case for requiring delegation of some or all levels of asset allocation decisions to another fund or a joint committee structure?

6. The LGA does not consider that a single passive CIV and a single alternatives CIV are a sensible outcome. LGA believes that it is for Government to set the objectives of collective investment, if necessary in regulation, and for the sector to then determine the style and scope of such arrangements.

A passive CIV

6.1 The following sections of this response set out the reasoning why allowing for at least some active management, even if restricted to internally managed or via some form of collaborative investment arrangement would seem prudent. Paragraphs 6.2 to 6.12 of this section will address the proposal for all passive investment of listed assets to be channelled via a single CIV rather than via existing arrangements in each of the 89 funds.

6.2 In doing so it will ask if such a single CIV would be cheaper in respect of either actual fees or in crossover costs and if another arrangement could provide the same or greater cost benefits.

Would a single CIV be cheaper?
6.3 According to CEM fees for external passive management for a selection of LGPS funds in a selection of asset classes compare as follows:

Asset Class	LGPS Median (26 funds) (bps)	Universe Median (355 funds) (bps)
Stock: Asia Pac/passive	**9.3**	10.4
Stock: UK/passive	**4.4**	4.6
Stock: EAFE ex-UK/passive	**6.6**	9.9
Stock: US/passive	6.5	**3.2**
Stock: Emerging/passive	15.4	**14.4**
Stock: Global/passive	11.5	**5.7**
FI: UK/passive	**8.0**	8.4
FI: Inflation Indexed/passive	**3.1**	4.0

6.4 In many asset classes the LGPS is already driving a hard bargain on passive fees when compared to the universe median but in others there is room for improvement which perhaps scale could address. For example in US equities a peer group of 16 large funds (of which 5 have passive mandates for this asset class) have achieved fees of less than 3bps while in emerging market passive the same group have median fees of less than 8bps.

Loss of crossover benefits in a single CIV
6.5 The Hymans Robertson report itself argues against a single LGPS passive pool on the basis of the loss of the benefits of 'crossover ' (matching sellers and buyers within the fund without having to make trades on the market).

6.6 On page 16 the report states that:

The research we have done, as part of this project, on the passive management of equities leads us to the conclusion that there is a significant advantage to being an investor in a very large fund. The advantage comes from the reduction in frictional costs of trading either into or out of the passive pool of assets and from the regular rebalancing activity that is required.

Under the status quo the bulk of LGPS assets that are managed passively are invested in pooled funds managed by the three largest passive managers and therefore arguably already benefit from the unit crossing of a large fund. As an example of scale, Legal and General's UK equity fund is £42 billion and the resources applied to the management of the firm's passive business include c. 20 investment managers.

6.7 It goes on to state that for a single passive CIV:

If the passive investment of the 89 funds was in a pooled fund or funds (if more than one manager were employed) dedicated to LGPS then there is likely to be a reduction in the crossing opportunities as all of the investors are likely to have cashflows going in the same direction as each other.

6.8 For 5 or 10 CIVs it states that:

The same issues, i.e. reducing the opportunities for crossing units, apply as for option 1 although, with even fewer LGPS participating in each collective investment vehicle (CIV), the chance of crossing opportunities would be even lower.

6.9 The report goes on to recommend that if CIVs were used they should hold units in existing externally managed pooled passive funds - those currently used by the majority of LGPS funds - i.e. it recommends no change.

Frameworks - a better alternative to a CIV?
6.10 A solution could perhaps better be addressed by focusing on the desired outcome. Such an outcome could be defined as one where LGPS funds obtain the best possible fee levels through scale and that a small number of large passive funds are used to maximise crossover benefits.

6.11 A national framework for passive mandates which restricts both the number of managers on the framework and sets a minimum size for the investment fund to be used would appear to meet that objective. A national procurement contest would bring the scale of all LGPS fund assets to bear in promoting competition on fees while the restrictions on size and number of funds would ensure the benefits of crossover.

6.12 Furthermore such an arrangement (framework), although requiring some cost and resource for its effective delivery, is neither as costly nor as complex as a CIV arrangement would be. Use of the framework could be mandated via a regulation along the lines of:

X% of passively managed listed assets must use managers selected via a national framework approved by the Secretary of State.

Alternatives
6.13 Alternative investments are defined as those which are not held as traditional stocks, bonds or cash. The range of investments in this category can include such diverse items as:

- Derivative contacts (including Futures) - securities whose price depends on the price of an underlying asset.
- Structured products - financial instruments that generally combine derivatives with either securities or other derivatives to create what is essentially a pre-packaged investment strategy in a single product.
- Hedge funds - private investment companies or partnership structures managed by a professional manager.
- Private Equity - investments in operating companies that are not publicly traded.
- Property - from small local housing projects to large corporate developments
- Collectables - purchase of physical assets with the hope that the value of those assets will increase.
- Infrastructure - in itself a broad description but includes car parks to high speed rail and tunnels to power stations. Investments can be at various stages of the project from concept to management of the finished asset.

Methods of access
6.14 All of the above assets are accessed through a variety of different routes and vehicles. Derivatives contacts can be purchased on the futures market, structured instruments are obtained from investment banks or other large financial institutions. Hedge funds and private equity can be accessed directly if the timing and available investment levels are right as can infrastructure and property. However for most small investments costly fund of funds are used. In the Hymans Robertson report it was estimated that 40% of investments fees go on alternatives which make up less than 10% of assets.

Direct access
6.15 The concept behind a single alternative CIV is that it would provide both the necessary investment levels and informed resource to enable direct investment and thereby avoid the costs of the fund of fund approach. A straightforward idea but the sheer range of asset classes would question if one body could have the capacity, expertise, experience and resource to provide the required level of service and performance.

The Australian and Canadian experience[4]

6.16 In terms of one alternative asset class (infrastructure) Australia and Canada have been recognised as pioneers since the early 1990s and have the highest asset allocation to infrastructure around the globe today. Which route do these pioneers use to access this one alternative asset class and could it be used as a model for the LGPS?

6.17 The majority of infrastructure investment by Australian pension funds is outsourced to external fund managers. Russell Investments (2012) estimates there is approximately A$15 billion of infrastructure assets represented in unlisted closed-end Australian wholesale funds, managed by about 12-15 managers. Two of those managers are:

Queensland Investment Corporation (QIC)
QIC is an open-ended fund owned by the State of Queensland. QIC commenced operations in 1989 and was formally established in 1991. Since then, it has grown to be one of the largest institutional investment managers in Australia, with more than 80 institutional clients and A$64 billion in funds under management.

Industry Funds Management (IFM)
IFM is an open ended fund with over A$36 billion in funds under management (as of September 2012) across infrastructure, listed equities, private equity and debt via a global team based in Australia, North America and Europe. The fund is wholly owned by 35 major Australian "not for profit" superannuation funds (i.e. member owned pension funds) who are also major clients.

6.18 In Canada 51% of pension funds invest directly either via co-investment or as part of a consortium these tend to be the larger funds. For smaller funds the following examples are the routes they have into infrastructure.

The Infrastructure Coalition Program: led by University of Ottawa Pension Fund and Teachers" Retirement Allowances Fund
The Infrastructure Coalition Program is a partnership with small and medium size Canadian institutional investors that came together to pool their resources and engage an experienced manager to establish a customized infrastructure investment program. This investor led group assembled an allocation of C$105 million and then selected Aquila Infrastructure Management as manager.

"Pre-packaged" (Advised) Consortium: Kindle Capital
Kindle Capital ("Kindle") provides independent financial advisory services to a network of standing small size institutional investors –no formal obligation- who will work with Kindle on a deal-by-deal basis to act as co-investors. For example during the 407 toll road project Kindle managed to combine investment commitments from 8-10 funds for a total of over C$200 million, meeting the required minimum C$100 million capital to participate in the investor group along CPPIB. The investment was completely discretionary and took place on an individual asset basis.

[4] All references in this section from: Inderst G., Della Croce, R., (2013), "Pension Fund Investment in Infrastructure: A Comparison between Australia and Canada", *OECD Working Papers on Finance, Insurance and Private Pensions*, No.32, OECD Publishing

The Debt Fund: Stonebridge Capital
Stonebridge Financial Corporation developed an Infrastructure Debt Fund in close cooperation with PBI Actuarial Consultants Ltd., and with support from PPP Canada and the engagement of the Business Development Bank of Canada, who invested in the Infrastructure Debt Fund to address the shortage of financing available for smaller infrastructure projects.

6.19 In both Australia and Canada the level of expertise and resource required to properly service investment in this asset class is cited is a primary driver in the decision over which route/manager/vehicle to use. For example the Canadian Pension Plan Investment Board (CPPIP) has taken a decision to invest some C$10.6 billion directly into infrastructure for which it relies on the support of a team of some 30 specialist infrastructure investment professionals.

6.20 IFM provides the closest comparator to the option of a single LGPS CIV for alternative assets as it covers both infrastructure and private equity (but not other classes of alternative assets). However it by no means has a monopoly even in the Australian pension fund infrastructure market.

6.21 In short neither country provides a clear example of a single route into even one alternative asset class. Rather they point to one of two potential routes:

- Direct investment through the building of an effective, experienced and well-resourced in house team
- Investment via multiple specialist infrastructure managers operating across both pension fund sectors and international borders.

Focus on the objective
6.22 The Hymans Roberston report rightly sets out the objective of finding ways to investment in alternatives without having to use costly fund of fund vehicles. However the consultation appears to leap from that sensible objective to a single CIV solution. Would it not be better to set that objective in regulation by phasing in a limit on fund of fund vehicles whilst working with the SAB and funds to develop ways to directly access such assets?

6.23 Administering authorities take their powers to discharge the function mainly from Local Government Act 1972 section 101 (with later additions from the Local Government and Housing Act 1989 and the Local Government Act 2000). Section 101(a) allows delegation to officers and committees of the council while section 101(b) provides that functions may be delegated to another local authority.

6.24 Section 101(5) then adds the power to delegate to a joint committee which is the starting point for CIVs. However there is nothing in the Local Government Act 1972 (or 1989 or 2000) which appears to give the Secretary of State the power to direct authorities to discharge functions in any particular way.

6.25 Where such direction does occur there is a piece of primary legislation to provide that power. For example section 18 of the Health and Social Care Act 2012 provides the power to make regulations directing the local authority to discharge this function as set out in those regulations - in this case Health and Wellbeing Boards.

The Public Service Pensions Act 2013

6.26 The candidate for such a piece of primary legislation is the Public Service Pensions Act 2013 and in particular section 3 and Schedule 3.

6.27 Section 3 of the Act states that:

3 Scheme regulations

(1) Scheme regulations may, subject to this Act, make such provision in relation to a scheme under section 1 as the responsible authority considers appropriate.
(2) That includes in particular—
(a) provision as to any of the matters specified in Schedule 3;…….

6.28 While schedule 3 includes:

SCHEDULE 3 Section 3(2)(a)
SCOPE OF SCHEME REGULATIONS: SUPPLEMENTARY MATTERS
…..
11 Pension funds (for schemes which have them).
This includes the administration, management and winding-up of any pension funds.
……
13 The delegation of functions under scheme regulations, including—
(a) delegation of functions by the scheme manager or responsible authority;
(b) further delegation of functions by any delegatee.

6.29 These provisions would appear to allow for directions by regulation as to the manner of management of funds therefore regulations along the lines of:

… a maximum of X% of assets classed as alternative are to be accessed via externally managed fund of fund arrangements

would appear to be perfectly feasible, if somewhat tricky to define exactly what is meant by terms such as 'fund of fund arrangements'.

6.30 However these powers do not appear to be broad enough to enable the Secretary of State to create the collective arrangements by which funds must invest. The basic elements of CIVs - joint committees and wholly owned companies are creatures of Local Government legislation which as stated at the beginning of this section is enabling (for local authorities) and not prescriptive.

6.31 Such a restriction in powers does not prevent the government's objectives being achieved, indeed the regulatory option listed in 6.29 would not only provide for that outcome but also enable the sector to create its solutions to enable continued access to the desired asset class or management style at a much lower cost.

6.32 Furthermore the amendment of investment regulations to include such provisions as set out above could be achieved in a relatively short timescale, for example prior to the May 2015 election.

6.33 The implementation of these objectives could be managed by gradual reduction in the percentages allowed over a period of years. This would provide time for existing mandates to mature and be replaced. Implementation could be re-enforced by separate lower limits applying to new mandates.

7. The LGA believes that whatever collective investment arrangements are created the opportunity should be taken to both encourage a greater degree of internal active management and set measurable governance objectives, if necessary in regulation and/or statutory guidance.

Internal management

	Year ended 31.3.2013	**5 years ended 31.3.2013**
Externally managed funds	25bps	26bps
Internally managed funds	5bps	5bps
Total	**22bps**	**23bps**

7.1 The active management costs in the above table[5] show an approximate 80% reduction in fees from external to internal management. This would reduce the current £310 million in active fees quoted in the Hymans Robertson report by some **£248 million**, an amount equal to that saved by moving to passive mandates. Furthermore as internally managed funds outperformed the benchmark across all but one equity class (North America -0.3%) over 10 years, and all asset classes if returns were risk adjusted[6], then some level of outperformance could still be expected.

Internal Management Performance (annualised over 10 years)

Asset Class	Outperformance against benchmark
Equities	+0.7%
Index linked	+0.2%
Fixed Income	+0.8%

7.2 As an example the West Yorkshire Pension Fund has a significant in house investment portfolio and quote the following benefits from that arrangement.

Cost

7.3 The total cost of the internal management team for the year to 31 March 2014 was £1.3 million, which with a fund value of £10.3 billion is less than 1.3bps. This is below the cost of passive management, even if restricting it to the main indices.

[5] State Street Global Advisors May 2014

[6] Risk adjusted performance (Sharpe Ratio) v benchmark for the 10 years to March 2013

Performance
7.4 All performance numbers quoted are extracted from the State Street Investment Analytics (SSIA) annual local authority reports, and, unlike most other funds which report performance before the payment of fees, are net of all external costs, whether dealing costs or fees paid away to third party managers. The only cost not included is the 1.3bps noted in the previous paragraph.

7.5 The total return for the ten years to 31 March 2014 was 8.4% per annum, putting the Fund in the 13th percentile against all other LGPS schemes, and beating its benchmark by 0.5% per annum. The principal source of the 50bps outperformance is stock selection, which is the responsibility of the internal team.

7.6 The internal team has added 0.6% per annum to performance over both three and five years, and 0.5% per annum over ten years. The consistency of this outperformance, which goes back beyond the ten years, and, as is pointed out in an earlier paragraph is net of all external costs (unlike other figures in the SSIA tables), demonstrates the clear value of internal management.

7.7 When examining the differences between the internal portfolios and those of other funds which are externally managed, what stands out is the much lower turnover of stocks within portfolios, which has obvious cost benefits. This also demonstrates the long term approach to managing the portfolio, which makes a substantial contribution to performance. Indeed, stock turnover may be lower than for passive funds, as a change to the index would not compel a change to the portfolio. WYPF has also had very low staff turnover, which is certainly related to the consistent outperformance, and demonstrates the high level of job satisfaction for managers in this environment.

7.8 Access to the internal team gives WYPF Elected Members a resource for both training and information to an extent and depth that would otherwise not be possible. This is not to the exclusion of external training, as all new Members attend the three day training course delivered by the LGA in Leeds each year, and are encouraged to attend other conferences and events.

7.9 This ensures Members are fully engaged in the investment process, and are able to receive and properly consider advice from both the internal team and the independent advisors.

7.10 Another great advantage is that where specialist external managers are required the internal team can engage on a peer to peer level, and are able to bring their knowledge and skill to bear in considering such appointments, and in negotiating fees.

7.11 In a similar manner the East Riding Pension Fund reports that internally managed funds provide the following advantages:

- Long term focus - less asset churn and lower transaction costs.
- Targeted level of outperformance generally lower than external mandates so lower risk profile.
- Stable internal team avoids transaction costs of mandate changes.

Governance

7.12 Section 4 above sets out a number of ways in which LGPS funds could collectively invest in order to benefit from reduced investment costs and better access to some asset classes. Should these be the only objective or should the opportunity be taken to insist that improved governance go hand in hand with the implementation of such arrangements?

Why better governance?

7.13 There is a general acceptance in the pensions industry that better governance equals better decision making which results in better returns. Is that quantifiable and if so what benefits could collective investment arrangements bring in this area?

7.14 Some work has been done on the financial benefits of good governance although quantitative data is relatively limited In *The Ambachtsheer Letter* of June 2006, Keith Ambachtsheer uses estimates from his database research that the gap has been worth 1–2% of additional return per annum[7]. Other studies have come at this problem from the opposite end by arguing there has been a net loss to funds due to poor governance.

7.15 For example a recent report[8] by CLERUS LLP[9] makes the case that for all LGPS funds in the UK the total monetary impact of the investment decision-making process over the past 10 years can be estimated to have produced a net negative impact to investment performance of roughly -1.0% per annum. This corresponds to a shortfall against the Schemes' benchmark returns which has resulted in a cost to the tax payer of £2.1 billion per annum or £17.5 billion in net present value over 10 years.

7.16 In particular it argues that those funds which do not fully comply with the Myners' Principles and those who have to rely on external advisors both suffer from below par performance.

7.17 The article 'Who's Afraid of Good Governance?[10]' goes so far as to the lay the responsibility for public sector pension deficits in the United States at the feet of chronic underfunding and governance structures that *reduce the likelihood that a plan's trustees will make optimal investment decisions*.

What makes for good governance?

7.18 Evidence that there is a link between superior investment performance and an institutional investor's strong governance is found in the research conducted jointly by the Roger Unwin of Towers Watson and Gordon Clark of Oxford University,

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[7] See "How much is good governance worth?" *The Ambachtsheer Letter*, June 2006. For additional evidence in this area, see Ambachtsheer, Capelle, and Scheibelhut (1998).

[8] The Hidden Cost of Poor Advice: A Review of Investment Decision-Making and Governance in Local Government Pension Schemes ("LGPS") – Part 1

[9] Clerus LLP is an Appointed Representative of Stoneware Capital LLP, which is authorised and regulated by the Financial Conduct Authority

[10] Who's Afraid of Good Governance? State Fiscal Crises, Public Pension Underfunding, and the Resistance to Governance Reform, Thomas J Fitzpatrick IV* & Amy B Monahan

entitled *Best-practice investment management: lessons for asset owners.* This report identified 12 best-practice factors as being indicative of future success in meeting institutional goals and focused on 10 of the top funds[11] around the world.

7.19 All funds had made the move up from being seen as ‘good’ to something close to ‘great’ by committing to excellence in their governance structures. Interestingly the report identified a single marker of this commitment to excellence, strong individual leadership from a fund focused investment officer at the senior management level, something which due to their status within host authorities not many LGPS funds can be said to benefit from.

7.20 The 12 best practice governance factors identified were then honed down to those six exceptional attributes which separate great funds from the rest:

- ***Investment executive**: The merits of separating governance into a governing function, which sets the framework, monitors, and controls, and an executive function, which makes the decisions within the given framework and implements them cannot be understated. Not only does this improve efficiency and accountability, but it also allows for the concentration of investment expertise within the executive function. Best-practice funds adopt a clear separation of governing and executive functions, with a strong culture of accountability. Furthermore, the executive function has a high level of investment competency, enabling the funds to implement and monitor complex investment arrangements.*
- ***Board selection and competence**: Sound investment competencies are also observed at the board level of best-practice funds. Board members ideally have strong numeric skills and the ability to think logically within a probability-based domain, such skills enabling the board to function effectively in its long-horizon mission.*
- ***Supportive compensation**: Leading funds address this at both the board and executive level, with some success at using compensation to attract appropriate skills and align actions to the goals of the fund. Current practice among funds in general appears to result in significantly more being paid to external agents. There is scope to address this imbalance through greater use of internal resources—an approach that is becoming more widely adopted.*
- ***Competitive advantage**: Investment is a highly competitive activity, and, for funds to succeed, they need to be aware of their competitive advantages and disadvantages and adapt their decision-making accordingly. Much of their competitive advantage will be built on a sound belief structure, but will also maximize their own particular areas of competence. It is equally important that funds should be aware of areas where they have no expertise, and seek to limit their strategy accordingly.*

[11] The 10 comprise six pension funds, two endowments, and two sovereign funds, located in North America (five funds), Europe (three funds) and Asia–Pacific (two funds), and they are all large in terms of assets, ranging from around US$5 billion to well over US$50 billion.

- ***Real-time decisions**: Most funds are geared toward making decisions around a calendar-based series of meetings. Best-practice funds, however, tend to have processes in place that enable decisions to be taken as and when necessary, based on investment market conditions. Making such a change from calendar to real-time focus involves more delegation and a clear definition of responsibilities.*
- ***Learning organization**: Best-practice funds tend to be innovative. To be successful they need to operate in a culture that learns from experience. They also need to be willing to challenge conventional wisdom and deal enthusiastically with change.*

Potential benefits of collective investment arrangements
7.21 Such benefits could come from two drivers. Firstly by including regularly monitored and quantifiable governance objectives measured either by compliance with Myners' or a similar list as the six exceptional attributes identified by Unwin and Clark. Secondly, by the potential benefits that scale can bring in developing internal expertise and available budget in meeting those objectives.

7.22 Regulations could be amended to require the setting, monitoring and reporting of such governance objectives for all funds and/or the collective investment arrangements which are created.

Passive Management

8.1 The consultation points to the LGPS achieving aggregate investment returns on or about the 'passive' level of return for the relevant index. For example over 10 years the FTSE index returned 10.7% while the assets investment in FTSE equities by the LGPS achieved an aggregate gross return on 10.8% and outperformance of 0.1%. However once active management fees are deducted the LGPS underperformed by 0.34%.

8.2 The consultation makes a case to move all listed assets to passive management. Such a move would, it argues, save some £230 million per annum in active fees whilst in aggregate having no detrimental effect on returns. Furthermore passive management tends to have much lower transaction turnover which could lead to even greater savings (a further £190 million per annum).

8.3 The government is seeking views on the following proposals to moving to greater passive investment:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a “comply or explain” basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report.

8.4 And asks:

2. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

LGA response on Passive Management

9. The LGA does not believe there is a good case for across the board imposition of pure passive management. However it does consider that there is a place for enhanced passive and/or targeted increases in pure passive and would therefore support a 'comply or explain' approach but with the backing of some form of regulatory conditions for permitting continued use of unlimited active management.

9.1 Although the aggregate choice to move to passive across the board may seem clear there is a story beneath the headline and some significant risks to consider.

Performance

9.2 Although the consultation claims no drop in performance for a wholesale shift to passive that is dependant of the timing both of its potential implementation and the period over which any measurement is done. For example the figures below show that although performance was on par with the index over 5 years if this policy had been implemented three years ago total LGPS return would have been 1.2% lower over that period.

Period	LGPS return[12] %	Index return %
5 years	7.4	7.2
3 years	8.7	7.5

9.3 Even if the aggregate performance of LGPS funds is on or about the index there are significant patterns worth investigating beneath that overall figure. Taking WM State Street SSIA performance statistics for the 5 years ending 31 March 2013 gives the following results.

Asset class	Total LGPS return %	Total Index return %
UK Equities	7.3	6.7
Overseas Equities	7.7	8.6
UK Bonds	8.4	7.1
Overseas Bonds	8.5	9.0

[12] State Street Investment Analytics (SSIA) Local Authority Universe

Over and underperformance of LGPS by number of funds

Asset class	LGPS funds outperforming the index %	LGPS funds underperforming the index %
UK Equities	78.3	21.7
Overseas Equities	55.6	44.4
UK Bonds	92.3	7.7
Overseas Bonds	84.6	15.4

Over and underperformance of LGPS by number of weight of assets

Asset class	LGPS asset weight outperforming the index %	LGPS asset weight underperforming the index %
UK Equities	90.0	10.0
Overseas Equities	69.2	30.8
UK Bonds	89.8	10.2
Overseas Bonds	84.0	16.0

9.4 As can be seen from the above tables the majority of funds (and assets) outperform the index in the majority of classes. Is, therefore, a wholesale shift to passive across all funds and across all asset classes a sensible approach? Would it not be better to use a 'comply or explain' approach coupled with the potential imposition of passive management targeted at those funds failing to do either?

Targeted shift to passive

9.5 The performance/cost balance resulting from any shift to passive management could benefit from a greater degree of analysis in terms of which funds or asset class may be selected for that shift. For example if the shift to passive had been restricted to UK equities or overseas equities there would have been a significant difference in the loss or gain to the scheme as shown in the table below.[13]

UK equities 2009-2013 all funds

Assets in class (2012-13)	£46b
Total return (5 year annualised)	7.3%
Index return	6.7%
Return (using annualised performance)	£3,337m
Return (assuming all index)	£3,063m
Costs (active plus passive)	£113m
Costs (all passive)	£27m
Net impact all funds going passive for UK equities	**Minus £188m**

[13] Figures derived from a combination of WM State Street performance statistics, the May/June LGPS fund survey and the combined LGPS annual report 2013. Returns calculated using annualised performance 2009-2013 and spilt of assets 2013.

OS equities 2009-2013 all funds

Assets in class (2012-13)	£59b
Total return (5 year annualised)	7.7%
Index return	8.6%
Return (using annualised performance)	£4,518m
Return (assuming all index)	£5,046m
Costs (active plus passive)	£145m
Costs (all passive)	£35m
Net impact all funds going passive for OS equities	**Plus £638m**

9.6 However if the shift was restricted to those funds which underperformed the index in UK equities over the last 5 years the following positive effect could have resulted:

UK equities 2009-2013 underperforming funds

Number of funds underperforming the index	14
Average return	5.7%
Index return	6.7%
Assets under management	£3b
Return (using annualised performance per fund)	£171m
Return (assuming at least index)	£198m
Costs (active plus passive)	£7m
Costs (all passive)	£2m
Net impact all 14 funds going passive for UK equities	**Plus £32m**

9.7 Another way of targeting the shift to passive would be to compare performance against the average in a particular asset class. For example the table below shows the impact of overseas equity return and performance if only those funds which had underperformed the average return in 4 or more of the last 5 years had been passive.

OS equities 2009-2013

Number of funds underperforming the index	13
Average return	6.9%
Index return	8.6%
Assets under management	£5.2b
Return (using annualised performance per fund)	£384m
Return (assuming at least index)	£452m
Costs (active plus passive)	£13m
Costs (all passive)	£3m
Net impact all 13 funds going passive for OS equities	**£78m**

Blips and troughs
9.8 Following the index will mean there will be times when funds will have to face significant swings in values totally outside of their control. Although such swings are something funds already face, currently they seek to use active management to smooth out these blips and troughs to some extent. As a long term investor such swings in value are not a problem in themselves, however unlike many other funded schemes, the LGPS can at times be subject to political intervention which in turn can be short term in its objective.

9.9 The risks presented by apparent under or over funding include pressure to take short term focused decisions and require effective management of expectations. For example individual three year valuations, which may occur at the peak or trough of the market, may not present sensible points to make radical decisions on funding and deficit recovery.

FTSE 100 Values

March 2001 valuation	5314
March 2004 valuation	4537
March 2007 valuation	6308
March 2010 valuation	5744
March 2013 valuation	6411

9.10 The above figures demonstrate that although the FTSE 100 has benefited from a significant increase in value over the total period the ride was at times rough and there was an uncomfortable degree of volatility.

ESG investment
9.11 There are however issues other than performance to consider when contemplating a shift to passive management. The first of these being Ethical Social and Governance issues (ESG). Most LGPS funds have some form of ESG stance however limited it may be in scope and implementation. Following an index means giving up control of stock picking and therefore potentially diluting that stance. This is recognised by the UN PRI (Principles for Responsible Investment) which exempts passive funds from being able to meet Principle 1: *'We will incorporate ESG issues into investment analysis and decision-making processes'*. There are 'ethical indices' such as FTSE4Good but even there the fund will be handing control of stock selection over to the index's policy committee who may or may not concur with the funds own definition of ESG or responsible investment.

9.12 Pension Funds already face criticism for stock selection even within the most carefully designed ethical strategy, the Church of England and Wonga is a recent example. Following an index would present a risk that the LGPS will end up owning politically toxic assets with the resulting reputational damage. It is possible to use tracker funds which aim to match an index while selectively excluding or including stocks for ESG reasons however the greater the degree of sophistication the greater the cost and the closer we get to active management.

Examples of FTSE 100 listed companies with potential ESG 'issues'

BAE systems	Arms
BP	Global warming
Imperial Tobacco Group	Tobacco
Unilever	Animal testing
William Hill	Gambling

9.13 In fact only 70 of the FTSE 100 make it into the FTSE4Good index

IORP Directive

9.14 The European Commission directive for Institutions for Occupational Retirement Pensions (IORP) Article 18 (20 in IORP II) states that:

However, Member States shall not prevent institutions from:
(a) investing up to 70 % of the assets ….. in shares, negotiable securities treated as shares and corporate bonds admitted to trading on regulated markets, or through multilateral trading facilities or organised trading facilities, and deciding on the relative weight of these securities in their investment portfolio.

9.15 There is a risk that being directed to track an index (or indices) could be deemed a restriction on the selection and therefore relative weighting of stocks and bonds in the portfolio.

Defining passive management

9.16 Definitions of passive management include:

Passive management (also called passive investing) is a financial strategy in which an investor (or a fund manager) invests in accordance with a pre-determined strategy that doesn't entail any forecasting (e.g., any use of market timing or stock picking would not qualify as passive management). (Wikipedia)

A style of management associated with mutual and exchange-traded funds (ETF) where a fund's portfolio mirrors a market index. Passive management is the opposite of active management in which a fund's manager(s) attempt to beat the market with various investing strategies and buying/selling decisions of a portfolio's securities. (Investopedia)

The practice of a money manager *or a team of money managers making* investment decisions *on what* securities *to include in a* fund *or* portfolio*, and then leaving those securities largely unchanged for a significant period of time. To give a very simple example, an investment manager may* buy *every* stock *on the* Dow Jones Industrial Average *and* hold *them for a period of five or 10 years (financial-dictionary)*

9.17 Passive management could therefore be defined as is anything from a predetermined strategy that does not use stock picking or timing, to matching a portfolio to an index, to picking stocks then leaving them alone for a long time or as the opposite of active. This lack of clarity could make it difficult to regulate for and police.

9.18 For example would the definition focus on stock selection by index or would it focus on the target return being an index? If the former how, if at all would the smart beta or passive plus indices fit into such a definition. If the latter would there be some freedom of movement on stock selection and timing provided the target index return was achieved?

Smart Beta

9.19 Traditional passive management use market capitalisation-based indices however recently alternative strategies which promise better returns and lower costs these strategies are known as smart beta, advanced beta, alternative beta or passive plus.

9.19 Smart beta attempts to avoid conventional market capitalisation weights that have been criticised for delivering sub-optimal returns by overweighting overvalued stocks and, conversely, underweighting undervalued ones. It seeks a better risk and return trade-off by using alternative weighting schemes based on measures such as volatility or dividends.

9.20 The indices in smart beta are designed to take advantage of perceived systematic biases or inefficiencies in the market. Using such indices for stock selection costs less than active management, but since it will, at the very least, have higher trading costs than traditional passive management it is more costly.

9.21 Examples of such indices include:

- The fundamentally weighted indices developed by Research Affiliates in 2005 which rank their constituents by book value, dividends, sales, and cash flow.

- Russell Indices Defensive index which and captures securities which better hold their value in market downturns and Dynamic index which includes volatile stocks most sensitive to credit, economic and industry cycles.

- State Streets' Value (concentrates on low value stocks), Size (equal weighting increased exposure to small cap), Momentum (focuses on stocks with recent upward trends) and Quality (stocks from companies with a pedigree of success) indices.

9.22 A key attraction of smart beta is that it is inexpensive for investors to evaluate its value compared to the time, effort and resource required to monitor the performance of active managers.

9.23 Defining passive management as stock selection determined by index would therefore prompt the question, which indices can be used and can smart indices be included?

Enhanced passive
9.24 Allowing for the use of a target index with some limited flexibility in stock selection could provide a better balance of risk and cost. The difference between this and smart beta is that a traditional market cap index would be chosen as the target return but the stock selection could be modified to a limited extent by the investors themselves to better match their risk appetite. By doing so it could address some of the volatility, reputational and ethical risks highlighted above.

9.25 For example funds could use the basic FTSE 250 index but modify up to 10% (by weight) of the stock selection to take out companies which are either contributing to a bubble or do not fit the funds' ethical strategies. These companies would be replaced by less volatile or more ethically suited companies. The performance of this modified index would be measured against the original and any differences would require highlighting and explaining.

9.26 Such modified indices would still provide much lower costs than full active management and allowing for some choice in stock selection could provide a half-way house to full passive while addressing some of the issues LGPS pension funds have with traditional market cap indices.

Regulatory options
9.27 The objective of legislation in this area would be to reduce levels of active management for which fund returns do not justify the fees payable. The potential impact on limiting active management within the scheme based on levels of performance is set out in 9.5 above. Such an objective could be achieved under the powers set out in this section either by a regulation designed to limit active management for those deemed to be underperforming:

Where under regulation X the Secretary of State determines that a fund is subject to special measures an upper limit of no more than X% will be set for listed assets which may be invested using external active managers.

9.28 Alternatively the regulation could be phrased to allow active management only for those funds who have proved their performance pedigree:

Except for funds listed in Schedule X no more than X% of listed assets may be invested using external active fund managers

9.29 Further restrictions on both active and passive external management could be imposed for funds by a requirement to use some form of collective investment arrangement.

Head of Pensions
July 2014