

Draft response

Local Government Pension Scheme: Investment Reform Criteria and Guidance

Kent Superannuation Fund Response

Thank you for the opportunity to respond to your November 2015 consultation paper.

The Committee welcomes the decision to retain at Fund level all current responsibilities except for investment manager appointments and the exception given to Direct Property from being included in the pool. As you set out in paragraph 1.1 the key issue is achieving good investment returns, not just paying lower investment fees.

The Kent Fund is working with a group of Central, Eastern and Southern counties and there are already good signs that the sharing of best practice between like-minded funds could have real benefits for investment returns.

In your future thinking we would like you to take account of the following issues:

- Criteria 1.1 – the references to “British Wealth Funds” completely ignore that all LGPS funds are in deficit and that the reductions in local government funding reduce active contributions and increase the proportion of deferred members and pensioners. Funding these current and future liabilities is the prime responsibility of the LGPS funds and will remain so.
- Criteria C – all the preliminary work suggests that the costs of these changes will exceed the savings for many years to come. The investment vehicles will require significant costs – investment adviser and legal, and then there will be very large transition costs.
- Criteria D – investment advice is that green field infrastructure investment is not a suitable investment for mature pension funds. We would invest more in infrastructure if there were more low risk investable opportunities in the UK.
- 2.5 & 3.16 – We support the need to let investments with high penalty costs to withdraw from to be left outside the pool. If we put equities, fixed income and diversified return / absolute return should account for 80-85% of total assets. These are areas where the maximum gains from pooling can be made. We agree that new private equity and infrastructure investments should be made via the pool.
- 3.17-3.20 – Kent has consistently had the best performing Property mandate in the LGPS and we have an allocation of 13% of the Fund – way above the figures you refer to. We welcome that we can maintain the existing mandate but we believe we should be able to add to it outside of the pool. Each individual property is unique and we want to continue the award winning relationship we have with DTZ investors.

- 3.23-3.25 – These funds exist to pay current and future pensions and the local democratic accountability is crucial.
- 3.46 – The Kent Fund has no in-house management and nor do the shire funds we are in discussion with. We are highly skeptical of the claims made by the 8 funds who do in-house management – there is no independent verification of their investment returns and with passive management available at virtually no cost the in-house management issue is really insignificant for LGPS as a whole.

James Scholes
Chairman Superannuation Fund Committee