Bob Holloway
Department for Communities and Local Government
By email to LGPSReform@communities.gsi.gov.uk

From : **Cllr Toby Simon**
(Labour, Turkey Street Ward)
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Date : **21 March 2016**

Dear Bob

LOCAL GOVERNMENT PENSION SCHEME:
INVESTMENT REFORM CRITERIA AND GUIDANCE

The Enfield Pension Fund is an active member of the London CIV and is fully committed to its success. We are in the process of moving assets into the newly opened equity funds; we have agreed a change of manager so as to take advantage of one of these. I attach a copy of the London CIV response to your consultation which Enfield fully endorses.

In addition, we would like to address some specific issues relating to the Enfield Pension Fund arising from the creation of the London CIV, which we would ask the Government to consider as part of this consultation process.

Introduction

Enfield Pension Fund has a distinctive investment strategy which has been developed over years and does not fit easily into the proposals arising from the consultation. Our current asset allocation is shown below.

Asset Class	Target Weighting %	Control Range
Option A		
Equities (including Private Equity)	40.0	±10%
Bonds	29.0	±10%
Hedge Funds	15.0	±5%
Property (UK)	10.0	±5%
Infrastructure/PFI	6.0	±3%
Cash	-	-

The Enfield Pension Fund has historically been well funded with above-average long-term performance on investments. Through a close working relationship with Council members, officers and investment professionals, a clear direction and clarity of purpose has been created and embedded into the decision making process of our Pension Policy & Investment Committee.

The basic approach was adopted about a decade ago, following an asset liability modelling exercise. We quantified the risks in the then current portfolio and looked at appropriate risks and required returns for the future. We agreed to design a portfolio that produced similar returns to one with high exposure to equities, but with better protection to falls in financial markets.

The key objective has been to control the risk of increases and volatility in the Council's funding rate, and the effect such movements would have on the Council Tax. Our consultants modelled a range of asset allocation strategies using historical market movement correlations and returns. The Committee decided to continue to generate the portfolio's current level of return, but with investment in assets whose movements were far less correlated than previously. This would help reduce expected volatility and the risk of increased contribution rates.

The Fund was keen to pursue diversification of investments and the key change was to reduce our exposure to equities from 70% to under 50% (currently 43% including a 5% exposure to private equity) and to move into alternative allocations. This included a number of strategies which protected the Fund from downturns in equity markets and would give absolute returns. This strategy has been particularly helpful in the current economic climate of falling world equity markets falling by 6% since March 2015.

Over the past decade to March 2015 we have slightly underperformed those funds with a heavy equity exposure but have experienced a much low level of volatilely and risk. We expect that figures as the March 2016 will demonstrate the value of this approach.

We accept that hedge funds and other alternative investments have high fees, but looking at the performance figures net of fees we believe they have delivered our strategic objectives and are thus justified.

Our investments have included infrastructure both through a direct equity shareholding (INPP) and a private equity type fund (Arcus).

INPP directly invests into infrastructure – such as off shore wind turbines, Liverpool library and the Thames Tideway Tunnel. This has been a very stable investment which has yielded a bond like return with capital appreciation.

Arcus has been less satisfactory - though has achieved a positive return after some years of losses. However we have lost confidence in the manager and have given notice to seek to sell our holding, along with Newham and West Midlands PFs. We will therefore be seeking to reinvest in this asset class if the buy-out goes through.

ENFIELD Council

Phase 1 response to the consultation

It seems unlikely that hedge funds will be an investment asset class available in the London CIV. This is because, as we understand the asset allocation of our colleagues, few if any London boroughs have adopted such a strategy, though it is used by some of the larger LGPS funds.

On the other hand, given the possible issues arising from the MiFID II directive's classification of local authorities, it may prove difficult to hold these investments outside of a pool.

Consequently, we would recommend the government allow funds to invest in more than one pool, so that the Enfield fund could invest in a pool that contains a hedge fund portfolio. This would give greater freedom for the fund to continue with this successful investment strategy.

Alternatively, we would like to have permission to hold these types of investments outside of the Authorised Contractual Scheme (ACS), though possibly using other structures administered by the London CIV.

We would wish to invest in property and infrastructure through the CIV, but it should be recognised that the CIV is fully occupied with setting up arrangements for other asset classes and that this make take some time.

We would like to continue to hold the INPP equity position, so would ask the Government to allow the Fund to hold this type of investment, possibly also within the London CIV, but outside of the ACS.

The Fund would be very happy to discuss and expand on these options with DCLG officials. We can then respond in more technical detail by July.

Yours sincerely

Cllr Toby Simon
Chair, Pension Policy & Investment Committee