ITEM 6

London Borough of Enfield

REPORT TO;	**Local Pension Board 4TH October 2018**
SUBJECT:	**Proposals for LGPS Fund reporting in a 'Pooled World'**
LEAD OFFICER	**Paul Reddaway**

1. **RECOMMENDATIONS** 1.1 To note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report describes the proposal for LGPS fund reporting within the context of pooling investments.

3 DETAIL

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have put forward a proposal for revised reporting for Local Government Pension Scheme (LGPS) Funds. This report describes those proposals. There are a number of objectives that this proposals should help achieve:

3.1.1 Government requirements for:

- measuring progress by funds in transitioning assets into pools;
- transparent reporting of costs and performance by the LGPS funds and pools;
- demonstrating that active management of investments provides added value to the scheme; and
- measuring increased capacity for cost-effective investment in infrastructure.

3.1.2 To take forward the aims of the Code of Transparency in reporting costs.

3.1.3 To develop the current asset allocation reporting in order to avoid the majority of assets being consolidated into the Pooled Investment Vehicles (PIV) line within the pension fund accounts.

3.2 The intention of this proposal is that this information will be reported in the Pension Fund's annual report.

3.3 There are four principles under-pinning this proposal:

- To disclose fully all investment costs impacting on the return available to the fund,

- To analyse costs to an appropriate level of granularity ensuring an effective balance between regulatory requirements, usefulness to readers, resource demands on fund officers and commercial sensitivity;
- To report costs and performance in a consistent manner which meets the government's requirements and enables the LGPS Scheme Advisory Board to consolidate reporting of those items to the pool and scheme level; and
- To separate effectively the set-up and ongoing costs of asset pools at fund level.

3.4 Pooled assets are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers – has been contractually transferred to a third party out with the individual pension fund's control. How these requirements (the four principles) are applied in practice must depend on the operating model the authority has chosen to adopt.

3.5 The proposal sets out detailed suggestions for reporting the activities underlying the objectives set out in paragraph 3.1 ff. These include:

- Measuring transition of assets to asset pools.
- Cost reporting (set up costs; commissions, fees and taxes; and ongoing investment management costs).
- Ongoing Investment Management Costs.
- Asset allocation and performance. Here the proposal is that gross and net return are reported by asset class and against both the performance of the relevant passive index and against the local performance benchmarks as set out in the pension fund's investment strategy. It is proposed that performance should be measured over one-, three- and five-year timeframes.
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3.6 The proposal suggests that the pools are analysed into the following categories

- Active listed equity
- Active fixed income
- Passive listed equity
- Passive listed income
- Private debt
- Property
- Unlisted equity
- Infrastructure
- Cash
- Multi-Asset Funds/ Diversified Growth Funds
- Other

3.7 Finally the proposal suggests a definition of infrastructure, which is a key aspect of the pooling agenda.

3.7.1 Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- substantially backed by durable physical assets;
- long life and low risk of obsolescence;
- identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;
- revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry; and returns to show limited correlation to other asset classes.

3.7.2 Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

3.7.3 Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be. Infrastructure service companies would not normally be included.

CONTACT OFFICER: Paul Reddaway, Head of Pension Investment & Treasury
BACKGROUND PAPERS: None
APPENDICES: None