



Department for  
Communities and  
Local Government

Chairs of the Pension Committees

Dear Chairs,

**Marcus Jones MP**  
*Minister for Local Government*

**Department for Communities and Local  
Government**

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24 MAR 2016

## LONDON COLLECTIVE INVESTMENT VEHICLE

I would like to thank you and all the authorities involved in the London Collective Investment Vehicle for submitting your initial proposal by 19 February. I was pleased to see that all 90 authorities made a commitment to pooling, with the overwhelming majority already involved in developing a pool. The move towards collective investment represents a significant opportunity for administering authorities to deliver substantial savings and efficiencies, and your contribution is much appreciated.

I welcome the initial proposal from the London Collective Investment Vehicle (CIV) and encourage you to continue to develop a detailed submission that fully addresses the criteria by 15 July. The London Boroughs have pioneered the use of collective investment within the Local Government Pension Scheme (LGPS) and I congratulate the London CIV on securing its first assets under management and the initial fee savings.

Your initial group clearly meets the scale criterion and the existing governance of the London CIV will provide a strong foundation upon which a more detailed proposal can be built. However, as you know, there remains a significant amount of work to do before July. In particular, some authorities have indicated that they would prefer to use more than one pool, often to ensure that their investment strategy can be fully implemented. I do not consider that this approach should be necessary as the governance structure should enable authorities to hold the pool to account and ensure that their investment strategy is implemented effectively. However, one pool may of course procure services from another, especially if a particular asset class is not yet available. The use of multiple pools should certainly not be considered as a means to access a preferred manager or very specific asset class not available through your pool.

My expectation is that all investments should be made through the pool, and I am glad to note that you expect to move towards this position over time. I recognise that there may be a limited number of existing investments that may be less suitable for pooled arrangements, such as local initiatives or some products tailored to specific liabilities. However, these should be the exception rather than the norm. The rationale for retaining any existing investments outside of the pool will need to be set out in the final proposal, making clear how this offers value for money. Any exemptions should be minimal and kept under review. I also recognise that a similar approach will need to be taken for illiquid assets with high penalty costs for early exit of a contract. Such investments should not be wound up early as a result of pooling but instead transferred across when practicable, taking into account value for money.

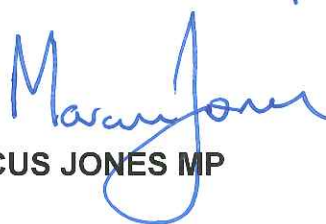
In your July submission I will want to see more detail against the infrastructure criteria, including setting out your constituent fund's ambition for infrastructure investment where the right opportunities exist. You and other pools committed to exploring a national vehicle to access infrastructure investment at a larger scale and at lower cost. We will therefore work with administering authorities to establish a new LGPS infrastructure investment platform that meets the specific needs of LGPS investors.

I will also expect the final proposal to address the reporting requirements in the criteria and guidance in detail. Reporting will need to cover progress in establishing the pool and moving assets into it, implementation costs, fees and other costs incurred, including hidden costs, estimated savings, and net performance in each asset class.

I strongly encourage you to continue dialogue with officials as you develop your thinking over the coming months. For the final assessment, the panel will include members with specific expertise in investment management, and you may be asked to present at a meeting of the assessment panel well ahead of your July submission. I look forward to receiving your detailed proposals.

I am copying this letter to the chairs of Pension Committees in all the participating authorities.

*Yours Sincerely,*



**MARCUS JONES MP**

by email to:

Cllr Andrew McMurtrie  
Cllr John Waters  
Cllr John Wentworth  
Cllr Robert Chapman  
Cllr Keith Ferry  
Cllr Adrain Garden  
Cllr Forhad Hussain  
Cllr Sunita Gordon  
Cllr Geoff Acton  
Cllr Eric Humphrey

Cllr Mark Shooter  
Cllr Shafique Choudhary  
Cllr Yvonne Johnson  
Cllr Claire Bull  
Cllr Iain Cassidy  
Cllr Mark Ingleby  
Cllr Elaine Norman  
Cllr Rajib Ahmed  
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Cllr Richard Livingstone  
Cllr Simon Miller  
Cllr Quentin Marshall  
Cllr Suhalli Rahuja